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CONTENTS

NATIONAL POLICY AND ISSUES

JINGJI YANJIU on Reform of Commercial Pricing (Chen Dagui; JINGJI YANJIU, No 1, 20 Jan 84)	1
National Technical Coordination Conference Opens (XINHUA, 2 Mar 84)	15
Unified Metrological Standards To Be Adopted (XINHUA, 3 Mar 84)	17

ECONOMIC PLANNING

National Income, Gross Social Product Examined (Xun Dazhi; JINGJI YANJIU, No 1, 20 Jan 84)	18
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ECONOMIC MANAGEMENT

JINGJI YANJIU on Application of Law of Value (Wu Shuo; JINGJI YANJIU, No 1, 20 Jan 84)	24
JINGJI YANJIU Views Measuring Currency Circulation (Lin Jiken; JINGJI YANJIU, No 1, 20 Jan 84)	33
State Council Issues Local Industry Regulations (XINHUA, 5 Mar 84)	42
Enterprise Directors Taught Modern Management (XINHUA, 2 Mar 84)	43
GONGREN RIBAO Reports Chongqing Economy Improving (XINHUA, 2 Mar 84)	45
Journal on Multiple Leadership of Enterprises (Gong Guanshi; JINGJI GUANLI, No 1, 5 Jan 84)	46

FOREIGN TRADE

Shandong Holds Export Trade Talks 10 March (XINHUA, 10 Mar 84)	57
Briefs	
Foreign Hotel Equipment Exhibit	59
Shanghai Foreign Trade Fair Ends	59
Trade Agreement With GDR	59
PRC-Taiwan Trade Via Hong Kong	59
Coproduction With Japan	60

NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON REFORM OF COMMERCIAL PRICING

HK081429 Beijing JINGJI YANJIU [ECONOMIC AFFAIRS] in Chinese No 1, 20 Jan 84
pp 9-15

[Article by Chen Dagu [7115 1129 7711] of the Economic Research Institute of the Ministry of Commerce: "Several Questions on the Reform of the Commercial Price System"--written June 1983]

[Text] Commercial prices are the prices of commodities that are undergoing the circulation process. They are prices arising in the realization of commodities' value.

In the entire circulation process, there are various forms of commercial prices, such as purchase prices (acquisition prices of inventories), allocation (supply) prices, wholesale prices, retail prices, and so on. The interrelationship between these prices is reflected in price differentials existing in various links of circulation of commodities, including purchase-marketing price differentials, regional price differentials, price differentials in allocation, and wholesale-retail price differentials. This interrelationship is also reflected in price differentials that extend through the entire circulation process, such as quality-based price differentials, seasonal price differentials, price differentials between new and old products, and so on. In the light of the requirements of economic laws, the correct handling of these price-differential relations is a task we must tackle in the establishment of a rational commercial price system. Some elementary views on several theoretical and practical questions related to the reform of the commercial price system will be put forth in this article for discussion.

I. Relinquish the Principle of 'Attaching Greater Importance to Industry Than to Commerce,' Set Prices According to Production Prices

What is the basis of formation of commercial prices? The superficial view is that commercial prices are formed by adding circulation costs and commercial profit to ex-factory prices. However, further analysis reveals that a commercial price is not simply an ex-factory price plus a premium. First, commercial circulation costs consist of 1) "those circulation costs which arise from the merchants' business proper and which therefore belong to the merchants alone,"

that is, pure circulation costs; and 2) "those costs arising from the presence of a production process (including delivery, transportation, safekeeping, and so on) which supplements the circulation process."¹ Although both categories of costs must be incorporated in commercial prices, judging from their sources, the first category amounts to a deduction from industrial profit, while the second category amounts to an increase in value within some reasonable limits. Moreover, commercial profit not only arises from the value created by labor in the continuation of production within the circulation process, including the value of surplus products, but mainly arises from a deduction from industrial profit. Ex-factory prices are formed only after this deduction has been made. Because the increase in price due to commerce includes both a deduction from industrial profit and an increase in a commodity's value due to productive labor, therefore, a commodity's commercial price does not exceed the commodity's value (or production price), but is determined precisely according to value (or production price).

Precisely speaking, commercial prices should be determined not directly according to value, but according to production prices, which are a transformed form of value. The social reproduction process is a unification of the production process and the circulation process. With the practicing of division of labor between industry and commerce, the commercial sector performs the circulation function, so that the industrial sector "spends less time on the circulation process and uses a smaller sum of those additional capital funds which have to be expended in advance for the sake of the circulation process. Moreover, that part of total profit which is dissipated in the sense that it becomes commercial profit is reduced in comparison with a situation where this differentiation is absent."² Without this division of labor, "the greater the concentration of capital in the realm of production, the greater will be the extent of dispersal of capital in the realm of circulation. Consequently, the purely commercial business of the industrial capitalists, and hence their expense, in purely commercial activities, will grow indefinitely."³ This is disadvantageous to the industrial sector. If commerce exists independently and performs the circulation function in place of the industrial sector, and if the industrial sector's use of capital funds and its expenses in purely commercial business are thus reduced, then it is justifiable that the commercial sector should participate in the distribution of industrial profit and hence enjoy a profit rate, based on capital funds used, which is roughly equal to that enjoyed by the industrial sector.

In our country's socialist economy, both industry and commerce are independent sectors of the national economy. The funds used by each of these two sectors belong to the total social funds. Moreover, the formation of commercial prices has the characteristics mentioned above. Therefore, if we proceed from the need for assessing the results of the enterprises' operation and comparing the economic results of various sectors, it is necessary to determine prices by adding an average profit based on capital funds used to production price or production cost. The average profit rate based on capital funds used, being an indicator for use in assessment, furnishes a yardstick and plays a positive promoting role with regard to quickening the enterprises' capital funds turnover, strengthening economic accounting, and utilizing and making plans for our total national economic funds.

The determination of commercial prices according to production price refers to the determination of wholesale prices but not retail prices. First, the commercial retail sector differs from the commercial wholesale sector in that it does not directly participate in the circulation process as part of social reproduction. Marx said: "Very obviously, consumption need not directly participate in the circulation of capital.... Capital flow in its actual sense is merely a flow between various entrepreneurs. The flow between the entrepreneur and the consumer, that is the commercial retail sector, is a secondary cycle and does not belong to the realm of direct capital flow. It is a cycle taking place after the first capital cycle has been completed, and moreover, it coexists with the first cycle."⁴ In the first capital cycle, a new production cycle can start once industrial capital has earned funds by selling commodities to wholesalers, without having to wait for the sale of commodities in the secondary cycle, that is, the sale of commodities by the commercial retail sector. Moreover, the function originally to be performed by the industrial sector, but now being undertaken by the commercial sector, is the wholesaling operation, which is a function of the commercial wholesale sector, not the commercial retail sector. Therefore, when Marx discussed the acquisition of part of industrial profit by commercial capital, he repeatedly stressed that the merchant capital he talked about refers only to the capital that performs the function of pure buying and selling, and the wholesale business precisely represents the purest form of merchant capital, while the retail merchant's capital, "as a hybridized form, is an exception."⁵ Some comrades consider various commercial prices (ranging from wholesale prices to retail prices) as an overall entity, without distinguishing between the different principles governing the formation of wholesale prices and retail prices. This is obviously wrong.

If prices are determined according to production price, the industrial and commercial enterprises are required to achieve a roughly equal profit rate based on capital funds used. However, in the 1964 "regulations on the setting of commodity prices by state industrial and commercial enterprises," drawn up by the national commodity prices commission, it is clearly stated that "in general, the principle of 'attaching greater importance to industry than to commerce' should continue to be implemented in the distribution of profits between industrial enterprises and commercial enterprises." Over the past 20 years or more, between the industrial sector and the commercial wholesale sector, the distribution of profits, calculated in terms of absolute figures and on the basis of commodities, was roughly in the ratio 8:2. As to the profit rate based on capital funds used and the profit rate based on sales, the levels attained by the commercial wholesale sector were less than one-third of those attained by light industry or the textiles industry. If the setting of ex-factory prices and wholesale prices by the industrial and commercial sectors is now based on production price, then the principle of "attaching greater importance to industry than to commerce" must necessarily be relinquished. Otherwise, there will not be a change in the existing situation of a wide disparity between industry and commerce with regard to the profit rate based on capital funds used.

When we say the formation of commercial prices must be based on production price, we refer only to the determination of value. We do not preclude the possibility that the state uses prices as a lever and makes prices deviate from value (or production prices) so as to promote and guide production, regulate distribution,

expand circulation, and guide consumption. Setting prices according to production prices will be more advantageous to our correct use of the law of value and our implementation of the principle of "relying mainly on the planned economy with regulation by market mechanism as a subsidiary measure." Moreover, attaining the average profit rate based on capital funds used does not imply an equal profit in absolute figures for both industry and commerce, because these two sectors have different rates of turnover of capital funds associated with various commodities, and the shares of profit allocated to various unit commodities are also different, with industry surpassing commerce in some cases. However, this is unrelated to the principle of "attaching greater importance to industry than to commerce."

II. Substitute Forward Addition for Backward Deduction, Achieve Unity of Allocation Prices and Wholesale Prices

The existing commercial price system of the state sector includes two interrelated sets of prices: internal allocation prices and external wholesale prices. The methods whereby these two sets of prices are set are: 1) wholesale prices are set by adding to the production cost a definite "accumulation rate" (that is, industrial profit plus a unified industrial and commercial tax plus the differences between the purchase price and the selling price at various links of wholesaling); 2) the wholesale price in the place of sale is determined by adding a regional price differential to the wholesale price for the place of production; and 3) in both the place of production and the place of sale, the wholesale price is discounted to give the allocation price, with different rates of discount applicable to different cases. This pricing method, usually called the backward deduction method, began in 1951 and was formally instituted in 1957. Prior to this, the wholesale price for the place of production was the ex-factory price plus the commercial costs and the profit for the place of production, and this wholesale price plus the commercial costs and the profit for the place of sale amounted to the wholesale price for the place of sale. There was not any set of allocation prices. This pricing method was usually called the forward addition method.

The advantages of backward deduction are as follows: 1) wholesale prices are set before industrial and commercial profits are taken into consideration. This is conducive to price stability; 2) commercial profit is concentrated in the place of production. In the light of the length and breadth of the channels of circulation, the commercial organs of the place of production which are responsible for wholesaling make overall plans, determine the rates of discount for various links, and control and regulate the profits which should go to various wholesaling links in various successive stages. This is advantageous to ensuring a given level of fiscal revenue; 3) adding a regional price differential and other price differentials to the wholesale price for the place of production is advantageous to the compatibility of prices between production and selling, and between various regions.

However, state monopoly for purchase and marketing, fixed objects of supply, and allocation of goods to various successively lower levels, are prerequisites for this pricing system. Therefore, with the development of the national economy,

and in particular, with the reform of the circulation system, this pricing system has become incompatible with the needs of production and circulation. First, with the adoption of many varied forms of purchasing and marketing by the commercial organs, and with the opening of many circulation channels, for one thing, our commercial system allows grassroots wholesale and retail enterprises to purchase goods from outside sources, so that they are no longer restricted by the system of allocating goods to successively lower levels; and for another thing, the selling of goods on their own by those units outside the commercial system is not governed by the rates of discount, so that the selling price varies freely between the wholesale price and the ex-factory price (or the production price in some cases). Thus, the original backward deduction method of pricing ceases to play the role of exercising price control and effecting overall profit planning. Second, the backward deduction method of pricing is overly inflexible. Any change in the price of a commodity affects the four links of purchasing, supplying, wholesaling, and retailing. The handling of the relationship between industry and commerce or between various parts of the commercial sector is a rather complicated matter, and readjustment is time-consuming, so that changes in market demand and supply or in a product's value cannot be opportunely reflected. For example, the 1975 ex-factory prices and wholesale prices of knitwear were determined by integrating industrial production costs, ascertained 10 years earlier (in 1964) through a combined industrial-commercial survey, with the computed costs of the previous year, based on product specifications and the standards of materials used, and then adding an accumulation rate. The next readjustment was made 8 years later in 1983 in a round of readjustment of the prices of cotton fabric and synthetic fiber fabric. By that time, the conditions had greatly changed. Another example is that in the latter half of 1982, some manufactured daily goods were unsalable, but the prices were not opportunely readjusted, and therefore many wholesale agencies in various localities made disguised readjustments of the allocation prices by various methods, such as raising the rates of discount, adopting the forward addition method in place of backward deduction, offering reduced prices according to the quantity of goods purchased, postponement of payment, transferring goods elsewhere for warehousing and sale, offering exemption from interest payment, and so on. This shows that backward deduction is highly inflexible and is disadvantageous to a correct application of the law of value. Third, since 1982, the state has allowed the prices of minor commodities to be determined freely and has allowed industrial and commercial enterprises to set prices through negotiation. Since then, because of free price movements, backward deduction has to give way to forward addition. This also shows that the backward deduction method of pricing cannot satisfy the needs of regulation by market mechanism.

Our method of reform is to adopt forward addition in place of backward deduction and to unify allocation prices and wholesale prices. The advantages of the forward addition method are that it makes pricing more flexible, it can satisfy the needs of many varied forms of purchase and marketing and the needs of many varied channels, it can help develop the role of the market mechanism, and it can help reduce the number of circulation links. However, it can also have the

following disadvantages. First, the profit due to the place of production is scattered and fiscal revenue is affected. Second, the prices of commodities in short supply keep on increasing as the commodities pass through successive levels, so that commodity prices cannot be kept within certain stabilized limits. Third, the disparity in industrial development between advanced and backward localities will widen. To prevent these disadvantages, we can consider taking the following measures.

1. We can rigorously grasp the rates of differentials and conscientiously control wholesale prices so as to ensure price stability. In dealing with commodities governed by planning, in the light of the length and breadth of each commodity's channel of circulation, we should determine what links each commodity should go through between leaving the place of production and appearing on the market in the place of sale, and we should determine the rates of charges corresponding to these links, including regional price differentials. Then, in compliance with the principle of setting prices according to production prices, and on the basis of achieving a roughly equal profit rate based on capital funds used in comparison with the industrial sector, the ex-factory price can be determined. The ex-factory price charged by industry plus the charges and profits due to the commercial wholesale sector in the place of production is equal to the wholesale price for the place of production, and when this wholesale price is increased by regional price differentials and the charges and profits due to the commercial sector in the place of sale, then we get the wholesale price for the place of sale. Transactions between various wholesale enterprises are based on wholesale prices, and allocation prices are abolished. The wholesale prices of commodities subject to planning should be taken as list prices stipulated by the state. When state commercial or industrial units sell goods on their own behalf, or when non-commercial sectors do commercial wholesale business, they should stick to the unified list prices for their own localities. As to commodities not subject to planning, particularly minor commodities, the magnitude of the rates of differentials associated with their circulation can be stipulated, and their wholesale prices can be allowed to fluctuate on the basis of the negotiated prices jointly set by industry and commerce.

2. Financial resources must be concentrated through taxation under the condition of the existence of dual-level prices. If the reform mentioned above has been carried out, profit distribution may change in two ways. First, if pricing is based on the average profit rate based on capital funds used, the ex-factory price may fall, resulting in an increase in the purchase-selling differential in commerce and hence an increase in profit. Second, owing to the substitution of forward addition for backward deduction, the wholesale price for the place of production falls below the original level, while the wholesale price in the place of sale rises above its original level, so that part of the commercial profit is transferred from the place of production to subsequent links. These two kinds of profit will probably be dissipated if they are not controlled. Therefore, taxation must be used as a lever for control and regulation. In some cases, a circulation tax can be added to the wholesale price (for the place of production); and in the larger number of cases, sources of fiscal revenue can be concentrated by levying earnings taxes and regulatory taxes. Aside from

strengthening the management of wholesale prices, we should also adopt the method of imposing the same taxes on all units doing wholesale business, and we must not give preferential treatment to some particular sectors with regard to the categories of taxes imposed on them or the tax rates charged on them. Nevertheless, at present, we can first impose wholesale business taxes on the non-commercial system.

III. Readjust Regional Price Differentials According to Economic Laws

A regional price differential should actually be a compensation for all labor consumption arising from the spatial and positional transfer of a commodity from the place of production to the place of sale. This should not only include freight cost, miscellaneous costs, operational costs, cost of damage to goods, and interest on capital funds tied up while the cargo is in transit, but should also include a definite amount of commercial profit. However, in practice, this price differential has not been instituted on a complete basis even though a number of readjustments have been made. Over the past 20 years or more, naturally there have been many reasons for the unreasonable reduction of regional price differentials. However, the main reason is that in the past, under the guidance of "leftist" ideology, regional price differentials were described as "a result of the dominating role of the capitalist law of value" and the law of value was negated.

In the initial post-liberation period, regional price differentials resulting from manipulation by private businessmen of the old society were reduced. During the First 5-Year Plan period, being in line with the transformation of the private sector, the principle of "a small profit for inter-city transactions and a reasonable profit for city-countryside transactions" in dealing with regional price differentials was both necessary and reasonable. However, after the accomplishment of the transformation of the private sector, and in particular, after the 1966 commodity prices conference, the changes in the method of pricing involving regional price differentials and the drastic reduction of regional price differentials have been appropriate according to our present viewpoint. The main problems are as follows: First, in disregard of actual economic conditions, the method of reducing regional price differentials was used to reduce differences between coastal areas and inland regions, and differences between the cities and the countryside. The reduction of regional price differentials was too sharp. In our country, disparity in economic development actually exists between the coastal areas and the inland regions, and between the eastern regions and the western regions. Overly great regional price differentials naturally result in greater burdens on the masses living in remote or inland regions. However, if regional price differentials are excessively reduced without any consideration of conditions of production, communications, and transportation, or if we even adopt the method of pricing according to division of labor, then the law of value is violated. Not only will the circulation of commodities be affected, but the development of local industries will also be adversely affected, and ultimately the reduction of differences between the cities and the countryside will not be promoted. Second, profit as part of regional price differentials is abolished, operational costs and transportation and miscellaneous costs are added in the first link while only transportation and miscellaneous costs but not operational costs are added in

subsequent links; and the operational units' deficits due to inadequate regional differentials in profit and other charges are compensated for by means of allocation discount rates instead of the proper differentials. This practice, characterized by centralized national computation and by ensuring of the commercial system's profit, is impracticable under the condition that many circulation channels exist. Moreover, owing to the confusion between the rates of discount and various regional differentials, those commodities and localities characterized by large regional price differentials can enjoy a profit due to regional differences, in addition to enjoying the rates of discount, but those commodities and localities characterized by small regional price differentials not only fail to enjoy a profit due to regional differentials, but must even use a large portion of the rates of discount to offset expenses, so that both the rates of discount and the regional price differentials cannot play their proper roles. Consequently, we got a false picture of the enterprises' operation, which is disadvantageous to the enterprises' economic accounting. Third, it was an intrinsically correct method to start from the place of production in calculating regional price differentials. However, later on, it was stressed that regional price differentials should be subordinated to price differentials based on quality. Although in actual implementation we have the methods of hard comparison (that is, the quality and prices of the commodities of backward localities are appraised through a comparison with the quality of the commodities of advanced localities), soft comparison (that is, the products of backward localities are priced by adding regional price differentials to the wholesale prices for advanced localities), and soft comparison plus preferential treatment (that is, the prices of local products being raised above prices determined by soft comparison), however, regional price differentials still continue to diminish and in some cases, the wholesale prices charged by new factories and old factories are basically equal. Naturally, it was originally thought that backward industrial undertakings could be helped to catch up with advanced ones. However, the industries of backward localities badly lack room for maneuver, so that when production costs rise because of changes in technology or changes in the supply of materials or raw materials, wholesale prices cannot be correspondingly readjusted. Thus, production and circulation are often adversely affected. Moreover, if the wholesale price of a given category of commodity is the same in various producing regions, this will often result in blockade between various localities and will adversely affect the exchange of different varieties of products between various localities. Fourth, once the rates of regional differentials were determined, they remained fixed over one or two decades, during which, however, there were changes in the industrial location, the orientation of flow of commodities, the conditions of transportation, and so on. Many differential rates are no longer appropriate.

To sum up, in the light of the new current situation, regional price differentials must be readjusted and a reform is necessary. Some initial views are as follows:

1. Regional price differentials must include a definite amount of commercial profit. Regional price differentials are due to changes in the commodities' spatial position and due to the continuation of the production process within the realm of circulation. The costs thus arising must naturally be fully incorporated in the commodities' wholesale prices, and an average profit, which should be earned because of the capital funds thus expended in advance, must similarly be incorporated in the wholesale prices.

2. In the light of the requirements for expanding the production and exchange of commodities, easing the flow of goods along urban and rural circulation channels, and organizing circulation on the basis of economic regions, we must restore the use of the following formula: price differential equals transportation and miscellaneous costs plus a comprehensive differential rate (which includes operational costs, damage to commodities, interest, and profit). The determination of comprehensive differential rates should continue to follow the principle of "a small profit for inter-city transactions and a reasonable profit for city-countryside transactions." Under the precondition of achieving a rational orientation of flow, we must strictly limit the comprehensive differential rates for the circulation between large or medium-sized cities while allowing appropriately higher comprehensive differential rates for the circulation between medium-sized cities and small towns, or between cities and the countryside. (City-countryside price differentials should not be too complicated. In general, two or three different levels can be established in the delimitation of price districts which have market towns as their centers.) In this way, the reduction of the number of links and the development of exchange of goods and materials between the cities and the countryside can be promoted.

3. Quality-based price differentials differ essentially from regional price differentials. In determining the ex-factory prices of the same produce for various localities, we must compare prices on the basis of quality. However, when some products arrive in a locality from elsewhere, justified and reasonable regional price differentials must not be abolished just because the same products are also produced locally. Thus, not only can the exchange of different varieties of products and the launching of competition be encouraged, but the industries of backward localities can have enough time to gradually catch up with their advanced counterparts elsewhere.

IV. Introduce Differential Interest Rates and Seasonal Price Differentials, Ensure Keeping Necessary Reserve of Commodities

Safekeeping charges, damage to commodities, and interest on capital funds used, which arise from the holding of a definite reserve of commodities, constitute an important part of the circulation costs of commodities. In price formation, the handling of these costs (including the cost of use of capital funds) should promote, and not discourage, the holding of necessary reserves of commodities by the commercial wholesale sector.

According to many years of experience in the commercial sector's work, there are four kinds of situations in the keeping of reserves of commodities. First, for commodities which are produced and consumed all the year round, reserves necessary for turnover are kept to ensure a normal market supply. For example, in the light of the production cycles, the laws of consumption, and the normal conditions of transportation, a reserve of matches should be able to provide for at least 2 or 3 months of consumption, and a reserve of cotton fabric should be able to provide for at least 6 months of consumption. Second, some commodities are produced all the year round but consumed during certain seasons (such as undershirts and sweat shirts) or produced during certain seasons but

consumed all the year round (such as sugar). A seasonal reserve of these commodities should be kept for an even longer time so that the burdens on the producer factories can be reduced and a stable market supply can be ensured. Third, reserves serving to fulfill policy requirements are kept because of economic readjustment, changes in import and export conditions, and so on. Although the reserves of some commodities in this category may sometimes temporarily exceed reasonable quantitative limits, however, the purchase and storage of these commodities can both facilitate economic readjustment and serve as a reserve force for stabilizing the market and improving the people's livelihood. Fourth, overstocking may be caused by blind purchase, storing of unmarketable goods, or bad timing in marketing or handling the goods. This is a case of what we call unmarketable, poor quality but high-priced, or damaged and deteriorating commodities. Some comrades do not distinguish between these four kinds of reserves. They describe them generally as the overstocking of commodities. This is incorrect. In dealing with the formation of wholesale prices, we should distinguish between these four kinds of reserves and correctly handle them in various appropriate ways.

Marx classified the formation of reserves into voluntary formation and involuntary formation. "The involuntary keeping of reserves is caused by, or is identical to, a stoppage of circulation which cannot be predicted by the producers of commodities and which goes against their will."⁶ The voluntary keeping of reserves is a condition for the circulation of commodities and is a kind of stoppage necessarily arising from the circulation of commodities. First, "a reserve of a commodity must reach a certain quantitative level if it is to meet the quantity demanded over a given period."⁷ Second, "the quantity of a reserve must exceed the average quantity sold or demanded. Otherwise, if the demand exceeds this average quantity, the demand will not be satisfied."⁸ Third, "a reserve must be continuously replenished because it is continuously consumed."⁹ "This replenishment varies with the time needed for reproduction during this time, there must be an adequate reserve of commodities."¹⁰ In this context, stoppage is normal; and moreover, "it is only when such a reserve exists that the continuous functioning of the circulation process, and hence that of the reproduction process which includes the circulation process, can be ensured."¹¹ Of the four kinds of reserves we have discussed, the first two kinds are voluntary reserves and the other two kinds are involuntary reserves. Within reasonable limits, the costs arising from the voluntary reserve holding (including safekeeping costs, damage, and so on) are incorporated in a commodity's value. Costs arising from involuntary reserve holding will not increase a commodity's value. In fact, these costs, together with the commodity's own value, will become a deduction when value is realized, that is, they will represent a loss in value."¹²

The costs of keeping voluntary reserves can be added to the wholesale price in two ways. The costs of keeping the first kind of reserve can be directly added to the wholesale price, and the costs of keeping the second kind of reserve can be incorporated in the wholesale price in the form of seasonal price differentials.

The holding of reserves of commodities not only involves safekeeping costs and cost of damage, but also involves the use of capital funds and the payment of interest. Interest accounts for a very high percentage of circulation costs (50 percent to 80 percent for first-level distribution centers in Shanghai). At present, the interest rate on bank loans for settling accounts and commodity circulation loans is a flat 0.6 percent per month. It seems this interest rate is too high. Moreover, the time taken by the banks to take over goods on behalf of consumers and effect payment has been lengthened and various handling fees have increased, so that the burden on the commercial sector is too heavy. Among many commercial wholesale agencies there is a trend of one-sidedly reducing inventory and keeping a less than reasonable quantity of reserves. To end this situation, we can introduce differential interest rates that correspond to the four kinds of reserves of commodities. The interest rates on the first and second kinds of reserves should be lower, and the interest rate on the fourth kind of reserve can remain at the current level. The third kind of reserve should be regarded as state reserves and should be interest-free. It is appropriate for the interest rate on loans for settling accounts to return to the pre-1972 level of 0.3 percent. This will promote improvement in the banks' work and help raise the banks' efficiency in settling accounts.

V. Rationally Readjust Wholesale - Retail Price Differentials

The commercial retail sector completes the unfinished work of the commercial wholesale sector. It is also responsible for rendering various services to the consumers. Therefore, the compensation for the commercial retail sector's expenses and the profit of this sector come from two sources. For one thing, the commercial wholesale sector must compensate for the expenses which the commercial sector incurs in completing the wholesale sector's unfinished work, so that the wholesale sector must give up part of its profit to the retail sector. For another thing, the consumers must pay an "equitable price," out of their own income, for the commercial retail sector's service. The first source essentially amounts to a deduction from wholesale profit, while the second source amounts to a redistribution of national income.

The wholesale-retail price differential is an addition to the wholesale price. The magnitude of this addition is directly related to the magnitude of the necessary labor consumption in the two categories of work mentioned above. Generally speaking, the rate of wholesale-retail price differential is determined by the speed of turnover of capital funds, the amount of work and service performed, and the magnitude of the commodities' value. There are three major problems to be solved in regard to the rate of wholesale-retail price differential.

1. It seems that for various categories of commodities, the determination of the rate of wholesale-retail price differential is characterized by "a sweeping categorization of things according to some simple criteria, like the cutting of something into two distinct halves with a knife." For example,

the wholesale-retail price differential is 7 percent for both woolen blankets and cotton blankets, and 25 percent for both pearl cream and vanishing creams. The differentials for cotton blankets and vanishing creams are too small. In the future, fixed differential rates should be stipulated only for major commodities, and the rates of wholesale-retail price differentials for other commodities can be allowed to vary within prescribed limits, so that different wholesale-retail differential rates can be set for various commodities according to the commodities' value, the speed of turnover, the ease or difficulty of operation, and the level of costs. Moreover, we should restore the price differential between the retailing link and the intermediate link that breaks up batches of goods for distribution to retailers.

2. Readjustments of rates of wholesale-retail differentials must embody due consideration for the interests of the wholesalers, the retailers, and the consumers. Among major commodities, those characterized by a small purchase-wholesale price differential but a large wholesale-retail price differential (such as bicycles) should have their wholesale prices raised so as to reduce the wholesale-retail price differential, while those characterized by a large purchase-wholesale price differential but a small wholesale-retail price differential (such as radios) should have their wholesale prices lowered so as to increase the wholesale-retail price differential. Changes in the retail price should be avoided as far as possible. With the prices of minor commodities allowed to vary freely, on the basis of pricing by negotiation, control over the rate of the wholesale-retail price differential can be relaxed and retail prices should be allowed to fluctuate.

3. At present, the uniform rate of discount for commodities whose wholesale prices and retail prices are identical is 7 percent. This rate is generally considered to be too low to make operation profitable. This problem can be solved by increasing the rate of discount in the cases of commodities which from the very beginning have had identical wholesale and retail prices throughout the country (such as medicine) and in the case of high-valued and highly specialized means of production which are specifically supplied to factories (such as pneumatic tools, electric tools, and so on). In the case of other commodities with identical wholesale-retail prices, including commodities which have no retail prices and which are sold by the factories themselves at ex-factory prices (such as lamps and lanterns, washing machines, and so on), and commodities which are high-priced new products on which identical wholesale and retail prices are set at the beginning in order to promote sales (such as television sets, recorders, and so on), we should create conditions to gradually make wholesale prices differ from retail prices. We should stipulate the rates of wholesale-retail price differentials in order to promote sales.

VI. Adhere to the Principle of Setting Prices According to Quality

To create greater and better use value to satisfy social needs is the basic aim of socialist production and circulation. From the viewpoint of society, raising product quality is the most effective form of economization. When we set prices according to socially necessary labor, we must first consider quality.

What we call quality means quality that satisfies social needs and is acknowledged by the consumers. A great deal of labor and materials are consumed in the production of certain products, but the quality of these products is not compatible with social needs. For example, considering enamel washbasins, some factories use the method of double titanium enameling instead of single titanium enameling, so that the products can have a better luster and look whiter. However, the enamel surface is fragile and easily comes off, the quality is not as reliable as that of the single enameled products, and titanium is wasted. Standards for assessing products constitute the main basis for setting prices according to quality. At present, standards for assessing many products are stipulated by the state and various ministries. However, emphasis is placed on the stipulation of indicators of physical and chemical properties, and inadequate attention has been paid to consumers' requirements with regard to appearance, feel, and so on. These standards for assessing products do not really reflect the kind of quality that consumers want. In particular, the quality requirements embodied in the standards for light industrial products promulgated in 1971 are more relaxed than in the past. These excessively low standards for products must be revised before they can be used as criteria for setting prices according to quality. To encourage the production of high quality products, we should also permit factories to set, on the basis of unified standards for products, their own quality standards which can reflect the strict demands they set on themselves. Thus, the stability and improvement of quality can be ensured. Moreover, quality-based price differentials merely reflect the social needs and consumer preference aspect. To encourage factories to produce marketable products, aside from instituting quality-based price differentials (which are at present mainly price differentials based on grades), we can also institute variety-based price differentials in the case of certain products of which many varieties exist.

Quality-based price differentials should not only be reflected in ex-factory prices and wholesale prices, but should also be reflected in retail prices, so that economy in the use of resources can be promoted and demand and supply can be regulated. At present, for some commodities, the differences in ex-factory prices corresponding to differences in grade are too small. For example, considering cotton fabric, the prices of first grade and second grade products differ by only 1 percent, while the prices of second grade and third grade products differ by 2 percent. The prices of second grade synthetic fiber fabrics are 95 percent of the prices of first grade products, corresponding figures for silk cloth and paper are 97 percent and 98 percent respectively. These small price differentials cannot be reflected in retailing. A second or third grade product is basically the same as buying a first grade one in terms of price. Everyone prefers top quality products to relatively inferior ones, resulting in social waste. The principle of high prices for high quality products and low prices for inferior quality ones should be reflected in ex-factory prices and price differentials based on differences in grade should be widened, so that the principle can be reflected not only in wholesale prices but also in retail prices.

Price differentials based on the reputation of brand names constitute a form of quality-based price differential. Famous brands of products are reliable in quality and have stood the test of time. They enjoy a good reputation among the consumers and differ from those products which gain awards in a single appraisal of quality. We should advocate creating famous brands and appropriately enlarging the price differentials between famous brands and non-ferrous brands of products. Of course, price differentials based on reputation of brand names must also be considered in connection with market demand and supply conditions. They must not be so great as to affect sales.

Between new products and old ones, price differentials must be allowed to exist. However, these price differentials must not be too great. The determination of a new product's price must not be solely based on production costs, but what price will make the product salable on the market must also be considered. Moreover, different prices should be charged in different stages according to the product's life cycle. The price can be higher at the beginning and then gradually lowered later until it reaches a normal price level. This is because "a commodity's value is not determined by the labor time actually expended in the production of the commodity, but is determined by the labor time expended in the reproduction of the commodity. Moreover, this labor time continues to diminish with the development of labor as a social productive force."¹³

FOOTNOTES

1. Marx: "Das Kapital," People's Publishing House, 1975 Edition (same edition being referred to in subsequent quotations).
2. Ibid., p 325.
3. Ibid., p 329.
4. Marx: "Collected Works of Marx and Engels: Manuscripts in Economics (1857-1858)," Vol 46 (Part II) p 145.
5. Marx: "Das Kapital," Vol 3, p 320.
6. Marx: "Das Kapital," Vol 2, p 164.
7. Ibid.
8. Ibid., p 165.
9. Ibid.
10. Ibid.
11. Marx: "Das Kapital," Vol 2, p 165.
12. Ibid., p 166.
13. Marx: "Das Kapital," Vol 3, p 448.

NATIONAL POLICY AND ISSUES

NATIONAL TECHNICAL COORDINATION CONFERENCE OPENS

OWO22132 Beijing XINHUA in English 1444 GMT 2 Mar 84

[Text] Chongqing, 2 Mar (XINHUA)--One million industrial workers, technicians and cadres are activists in technical coordination associations in 20 provinces, municipalities and autonomous regions, which aim to tackle key technical problems and spread new techniques.

Wang Chonglun, chairman of the National Technical Coordination Committee, reported this at a national conference on technical coordination among workers which opened today in Chongqing, southwest China's leading industrial city.

Wang is concurrently vice-president of the All-China Federation of Trade Unions.

While spreading new technology, Wang Chonglun said, technical coordination associations in 19 cities including Beijing, Shanghai and Tianjin in 1983 helped solve 8,700 key technical problems and held 5,300 technical training sessions.

Thanks to help from coordination teams, he added, 25 factories in Shenyang started making profits for the first time.

Technical demonstrations were sponsored by Shanghai's Technical Coordination Association for one million workers who began working just before or during the "cultural revolution" when technical training was neglected. This was part of an effort to improve their competence, he said.

Technical coordination associations are voluntary mass organizations operating under the trade unions.

Wang Chonglun said that the associations in Beijing, Shanghai, Tianjin, Harbin and other industrial cities have sent their best members to relatively backward areas to help them achieve technical progress.

Participants at the current national conference will help Chongqing, the host city, tackle 16 key problems, he said.

Wang Chonglun was formerly a shaper operator in Anshan Iron and Steel Company in northeast China's Liaoning Province. He did in 1953 an amount of work that normally would have required 4 years after devising a universal fixture for his shaping machine. He has been known as a technical innovator for years throughout the country.

CSO: 4020/82

NATIONAL POLICY AND ISSUES

UNIFIED METROLOGICAL STANDARDS TO BE ADOPTED

OW032338 Beijing XINHUA in English 1830 GMT 3 Mar 84

[Text] Beijing, 3 Mar (XINHUA)--China will adopt unified standards of measurement nationwide by 1990, under an order issued by the State Council on 27 February and made public here today.

The measures will be mainly based on the international metric system, a spokesman for the State Bureau of Metrology said.

Standards currently in use include the traditional Chinese system of weights and measures, and the British system, he said. "The development of the country's economic construction, science, technology, culture and education, as well as its increasing international economic and technical exchanges, call for setting and adopting unified measures," he added.

Departments of industry, transport, culture, education, publication, and science and technology and government organizations will switch to the unified standards between 1984 and 1987.

The new units will be used by all newspapers, journals, books, and broadcast and television programs from 1986, while measures for export commodities can be set according to contracts, the spokesman said.

The Chinese "mu" (15 mu equal to one hectare) as a measure of farmland is used by hundreds of millions of Chinese peasants and its change will involve complicated work. The change will be made at an appropriate time on the basis of further studies, the spokesman added.

The adoption of international units of measurement is required under provisional metrology regulations published by the State Council in 1977. The units have been adopted so far by departments of education, publication, information, standards and metrology. Textbooks for middle schools and colleges have also made the change.

CSO: 4020/82

ECONOMIC PLANNING

NATIONAL INCOME, GROSS SOCIAL PRODUCT EXAMINED

HK091501 Beijing JINGJI YANJIU [ECONOMIC AFFAIRS] in Chinese No 1, 20 Jan 84
pp 37-39, 15

[Article by Xun Dazhi [5424 1129 1807] of the Institute of Economics under the State Planning Commission: "It Is Difficult for Our Country to Achieve in the Near Future a Simultaneous Increase in National Income and Gross Social Output Value"]

[Text] How we look at the question of "achieving a simultaneous increase in national income and gross industrial and agricultural output value" is a matter of great importance because the correct arrangements for industrial and agricultural production plans and plans for national income are at stake. The following is my superficial understanding on this:

First, about simultaneous increase.

It is not very scientific to say that the achievement of a simultaneous increase in national income and gross national and agricultural output value is of particular significance in efforts to reduce material consumption and improve economic results. 1) national income and gross industrial and agricultural output value do not cover the same sectors of production. The former is created entirely by sectors of material production, but the latter only reflects the results of two sectors of production, namely, industry and agriculture. The ratio between them does not fully reflect their interrelationship, how one grows as the other declines. 2) The simultaneous increase in national income and gross industrial and agricultural output value does not fully reflect the need to reduce material consumption and improve economic results. Without reducing material consumption or improving economic results, it is also possible to achieve a simultaneous increase in national income and gross industrial and agricultural output value by developing the building industry, transport, and commerce. The reason is that production in these three sectors only forms national income, not gross industrial and agricultural output value. In 1980, the net output value of these three sectors amounted to 50.3 billion yuan (calculated at the cost in that year), or 13.7 percent of the national income. Provided that rapid development is made in these trades, it is possible to accelerate the growth of national income and achieve a simultaneous increase in national income and gross industrial and agricultural output value even if their level of material consumption is high and economic results are poor.

This has happened in our country before. In 1952, national income increased by 22.2 percent over the previous year and surpassed the 20.9 percent growth rate achieved in gross industrial and agricultural output value. In 1953, national income increased by 14 percent, close to the 14.4 percent achieved in gross industrial and agricultural output value. Rather than being reduced, the proportion of material consumption in society shot up to 42 percent in 1952 from 37.6 percent in 1950 and 39.4 percent in 1951. In 1953, the figure stood at 43 percent. The proportions of material consumption in the building industry, in transport, and in commerce were 63 percent, 28.6 percent and 22.1 percent respectively in 1952 and 67.1 percent, 31 percent and 20.8 percent respectively in 1953, all of which were higher than the 1951 level (62.5 percent, 25 percent and 20.1 percent respectively). It was chiefly on account of the particularly speedy growth of the building industry, transport, and commerce that in 1952 and 1953, the increase in national income outstripped or came close to the rate of growth in gross industrial and agricultural output value. In 1952, the total output value of these three trades grew by 137.5 percent, 45.8 percent and 28.4 percent respectively over the previous year. In 1953, the respective increases were 54.4 percent, 25.7 percent and 30.1 percent, all higher than the rate of growth achieved in gross industrial and agricultural output value that same year.¹ The ratio of the rate of growth of national income to that of gross social output value² was 0.86:1 in 1952 and 0.75:1 in 1953. The rate of growth of national income was notably slower than that of gross output value. Thus, if we propose a simultaneous increase, we are not so much aiming at a simultaneous increase in national income and gross industrial and agricultural output value as striving for a simultaneous increase in national income and gross social output value.

However, it is also not adequate to talk about achieving a simultaneous increase in national income and gross social output value. Aside from reducing material consumption and improving economic results, it is also possible to achieve a simultaneous increase in national income and gross social output value in the following ways: 1) readjust the industrial structure by increasing the proportion of industries with a low level of material consumption in social production. 2) Make price readjustment by raising the price for processed goods, particularly final products, and lowering the price for the products turned out by the raw and semifinished material industries and energy industries. 3) Increase the consumption of animate labor. The greater the consumption of animate labor, the higher national income becomes. 4) Concentrate manpower and material and financial resources on developing those areas which could lead to a fairly rapid increase in national income in the near future, and so on. If we only emphasize the need to achieve a simultaneous increase in national income and gross social output value, we could end up with the lopsided development of the industrial structure. The price system will become even more unsound, animate labor will

1. See "1983 Chinese Statistics Yearbook" published by the Chinese Statistical Publishing House in 1983. Domestic statistic figures quoted in the rest of this article are all taken from this book or derived from the figures given in this book.

2. Gross social output value was referred to as gross social product in the past. The term was used for the first time in "The Communiqué of the State Statistical Bureau of the PRC on the Results of the Implementation of the 1982 Plan for National Economic and Social Development."

be wasted, and the sustained and steady growth of social production at a high speed will be affected. Thus, the ideal formulation ought to be: to strive for a simultaneous increase in national income and gross social output value under the prerequisite of continuously striving to make the industrial structure and price system sounder, to lower the consumption of animate labor, and to ensure the sustained and steady growth of social production at a high speed.

Second, about factors that may affect a simultaneous increase in national income and gross social output value.

Before examining the possibility of achieving a simultaneous increase in national income and gross social output value, let us analyze the factors that may affect their simultaneous increase.

Taking X_0 to stand for gross social output value in the base period, it can be written out as $c_0 + v_0 + m_0$; Y_0 stands for national income in the base period and can be written out as $v_0 + m_0$; Δx stands for the increase in gross social output value in the planned period and can be written out as $\Delta c + \Delta v + \Delta m$; Δy stands for national income increased in the planned period and can be written out as $\Delta v + \Delta m$. In the same way, x' which stands for the rate of growth of gross social output value and y' , which stands for the rate of growth of national income can be written out as:

$$x' = \frac{x_0 + \Delta x}{x_0} = \frac{c_0 + y_0 + \Delta c + \Delta y}{x_0} \quad (1)$$

$$y' = \frac{y_0 + \Delta y}{y_0} \quad (2)$$

If we change (2) into $y_0 + \Delta y = y' y_0$, and substitute this new equation into (1), we get

$$x' = \frac{c_0 + \Delta c + y' y_0}{x_0} = \frac{c_0 + \Delta c}{x_0 + \Delta x} \cdot \frac{x_0 + \Delta x}{x_0} + y' \frac{y_0}{x_0} \quad (3)$$

w_0 stands for the proportion of material consumption in gross social output value in the base period, and w_1 stands for the proportion of material consumption in gross social output value in the planned period. Hence,

$$w_0 = \frac{c_0}{x_0} = \frac{x_0 - y_0}{x_0} = 1 - \frac{y_0}{x_0}, \quad w_1 = \frac{c_0 + \Delta c}{x_0 + \Delta x} \quad (3a)$$

The proportion of material consumption cannot be zero. It also cannot be one. Thus, $0 < w_1 < 1$, $0 < w_0 < 1$. If we substitute these into (3), we get:

$$x' = w_1 x' + y' (1 - w_0) \quad (4)$$

By inversion,

$$x' = \frac{1 - w_0}{1 - w_1} y'$$

From (5), we can see that whether or not we can achieve a simultaneous increase in national income and gross social output value depends on whether or not the

proportion of material consumption in gross social output value is on the increase. If the proportion remains unchanged, that is, $w_1 = w_0$, then

$\frac{1 - w_0}{1 - w_1} = 1$. This means there is a simultaneous increase in national income and gross social output value. If the proportion is increased, that is,

$w_1 > w_0$,
then $\frac{1 - w_0}{1 - w_1} > 1$. This means the rate of growth of gross social output value is higher than that of national income. If the proportion is reduced, that is, $w_1 < w_0$,

then $\frac{1 - w_0}{1 - w_1} < 1$. This means the rate of growth of national income is higher than that of gross social output value.

The proportion of material consumption in gross social output value is affected by many factors. Chief among these are: 1) Changes in the line-up of various sectors. The proportion of material consumption differed greatly in the gross output value of each material production sector. For example, during the Fifth 5-Year Plan period, the proportion of material consumption was 65.9 percent for industry, 30.8 percent for agriculture, 76.6 percent for the building industry, 43.4 percent for transport, and 39.7 percent for commerce. Any change in the line-up of various sectors will change the production of material consumption in gross social output value. 2) Changes in the proportion of material consumption in various sectors or products. The proportion of material consumption in society is the weighted average of the proportion of material consumption in various sectors or products, its size and changes being directly determined by the size of and changes in the proportion of material consumption in various sectors or products. 3) Changes in the price structure. The proportion of material consumption in gross social output value is calculated at current price. It will increase if the price of raw and processed materials rises and that of finished products falls, or if the price of finished products rises but not as quickly as that of raw and processed materials, or if the price of raw and processed materials and that of finished products both fall but the latter falls at a faster pace. Statistics shows that between 1952 and 1982, the proportion of material consumption in gross social output value has gone up by 15.1 percent. Of this, 8.7 percent resulted from changes in the line-up of various sectors, 5.1 percent from the increase in material consumption, and 1.3 percent from changes in the price structure. Actually, these factors which affect changes in the proportion of material consumption in society are also factors which directly affect national income. The reason is that the proportion of material consumption and the proportion of net output value grow at the expense of each other. Their sum is one.

Third, can our country achieve a simultaneous increase in national income and gross social output value?

As discussed in the foregoing paragraphs, whether or not we can achieve a simultaneous increase in national income and gross social output value depends on whether or not we can reduce or maintain the proportion of material consumption

in gross social output value. I believe that in the long run, when social production has developed to a certain stage, national income can grow simultaneously with gross social output value because the proportion of material consumption in society cannot keep increasing until it reaches 100 percent.

From the perspective of the last several decades in our country, the level of social productivity is still relatively low. We are still predominantly an agricultural country with a fairly low level of industrialization. Our laborers are only equipped with a low level of production technology, and the industrial and price structures are rather unsound. The proportion of material consumption will continue to increase for some time to come. Thus, it is quite impossible to achieve a simultaneous increase in national income and gross social output value in the next few decades. The main reasons are as follows:

First, with the advancement of science and technology and the development of social production, the extent to which technical equipment is available to the laborers and the organic composition of funds will continue to increase. Under such circumstances, inanimate labor will grow at a rate faster than that of animate labor, thus causing gross social output value to grow at a rate faster than that of national income.

Second, with the development of social production, changes in the line-up of various sectors will reduce the proportion of those sectors which consume less material, such as agriculture, in gross social output value, but will gradually increase the proportion of those sectors which consume more materials, such as industry and the building industry. In particular, the building industry, which consumes more materials than any other sectors, will possibly register a substantial increase due to the continuous expansion of the scale of construction. The proportion of transport and commerce will also increase. This will lead to an increase in the proportion of material consumption in gross social output value.

Third, the existing rate of depreciation for fixed assets is much too low and the replacement of outmoded equipment is too slow. This affects the development and application of production techniques. In the future, we should appropriately raise the rate of depreciation. This will also increase the proportion of material consumption.

Fourth, the present price structure is very unsound. The price set for the products of the raw and semifinished materials industries and energy industry is too low and that for processed goods is too high. In the future, we should appropriately raise the price for the products of the raw and semifinished materials industries and energy industry, particularly the price for coal and electricity. Again, this will increase the proportion of material consumption.

Fifth, with the development of social production and the improvement of living standards, the degree of the processing of social products will continuously go up. Along with this, the proportion of material consumption in social products will increase in a corresponding way. This will lead to an increase in the proportion of material consumption in society.

It can thus be seen that the proportion of material consumption in gross social output value will increase in the immediate future. For this reason, national income cannot increase simultaneously with gross social output value. Of course, in individual years when gross social output value grows at a rate much faster than that of national income because material consumption for the base period has been set at an unreasonably high level, it is possible to achieve a simultaneous increase in national income and gross social output value through reducing unwarranted material consumption and improving economic results. This is, nevertheless, not normal and cannot serve as an illustration.

Based on the above analysis, I think that in the absence of necessary conditions, it is not appropriate to set ourselves the task of achieving a simultaneous increase in national income and gross social output value and even to take this as a norm for assessment. If we do this, we are likely to create a host of problems in the national economy. The reasons are: 1) this is not conducive to the introduction of new technology and equipment, or to efforts to increase the extent of technical equipment available to the laborers. As a consequence, the rapid development of social production will be adversely affected. 2) this is not conducive to the development of industrial sectors which involve a high level of production techniques. It will affect the improvement of production techniques in society and lead to the lopsided development of certain sectors. 3) this is not conducive to the raising of the rate of depreciation and will make the replacement of fixed assets even more sluggish. 4) this is not conducive to changing the unsound price system and will possibly widen the price parities between different products, and so on.

CSO: 4006/339

ECONOMIC MANAGEMENT

JINGJI YANJIU ON APPLICATION OF LAW OF VALUE

HK091047 Beijing JINGJI YANJIU [ECONOMIC AFFAIRS] in Chinese No 1, 20 Jan 84 pp 66-70]

[Article by Wu Shuo [0702 4311] of the Commercial Economic Research Institute of the Ministry of Commerce: "State Monopoly of Purchase and Marketing and the Application of the Law of Value"--dated September 1983]

[Text] In 1953 and 1954, China introduced planned purchase and planned supply (abbreviated as state monopoly of purchase and marketing) of three kinds of agricultural products--grain, edible oil crops, and cotton. For quite a long period, the state planning organizations introduced mandatory planning for the production and circulation of these products. And it is only in recent years that guidance planning has been introduced for the production and circulation of grain and edible oil crops to replace the mandatory planning, while the production of cotton and state monopoly purchase and over-quota purchase of grain, edible oil crops, and cotton are passed down as compulsory quotas. Following the introduction of state monopoly of purchase and marketing, there has been no way for the law of value to display its roles of regulating the production and circulation of these three kinds of commodities. And it has become a subject of argument for a long time whether it is necessary for state planning organizations to consciously or unconsciously resort to the law of value and fully use such economic levers as value, tax, profits and credit as measures to lead agricultural and commercial enterprises to realize the plan for the production and circulation of grain, cotton, and edible oil crops.

The nature of the differing views on the above mentioned question is whether it is imperative to carry out socialist planned economy according to the law of value. These different views also mean different approaches to the roles of the law of planned and proportionate development and the law of value in the planned development of the national economy. Having been subject to a long period of influence of the mode of Soviet planned economy, China did not theoretically recognize in the past the importance of the regulating role of the law of value in the production and circulation of socialist commodities. Therefore, it was thought that the socialist planned economy need not necessarily consider the roles of the law of value, need not use, or only use in a limited way, the means of economic regulation but must (or mainly) rely on administrative means. The socialist production means commodity production, and the law of value has its

regulating role in the production and circulation of socialist commodities. It is imperative for the socialist planned economy to resort to the roles of the law of value. Comrade Hu Yaobang pointed out in his report to the 12th CPC National Congress: "Planned Production and Circulation Are the Main Body of the National Economy of China...and both guidance planning and mandatory planning must accord with objective reality. It is imperative to study the changes in market supply and demand, consciously use the law of value and economic levers such as value, and credit to lead enterprises in realizing state planning, and entrust these enterprises with a certain autonomy. It is only in this way that the planning can be supplemented and perfected in the process of its application." These words explicitly pointed out the roles of the law of value in the planned economy.

A reason for different understanding of the relations between state monopoly of purchase and marketing and the law of value in practice is that state monopoly of purchase and marketing represent a particular form of the planned economy. Such purchase and marketing are particular because first, the amount, varieties, the price of the planned purchase and supply of grain, cotton, and edible oil crops are compulsory and defined by the state. It has also been stressed that it is an obligation for peasants, as with paying agricultural tax, to sell grain, cotton, and edible oil crops to state commercial departments under state monopoly purchase and sell the surplus of these products after meeting the quotas. Second, the government has, through laws and regulations, interfered with, and influenced the distribution and consumption of the grain, cotton, and edible oil crops both within agricultural enterprises and within peasant households as far as their self-sufficiency in these products is concerned. This move by the government has surpassed the limit of state general monopoly of the management of certain commodities. Third, the planning for the production of grain, cotton and edible oil crops and the policy of state monopoly of purchase and marketing are implemented basically through administrative means rather than economic means. Fourth, on the one hand, the state distributes agricultural profits through the planned purchasing price of grain, cotton, and edible oil crops and on the other hand, it provides income subsidy and cost subsidy to the consumers (including production units) of these products through the planned supply price. Consequently, the price of state monopoly of purchase and marketing is different from monopoly price in general. Fifth, before 1983, grain and edible oil crops were monopolized by state grain enterprises while cotton was monopolized by supply and marketing cooperatives. These enterprises and cooperatives were in a position to distribute goods and they had a certain administrative function, thus becoming the grain and commercial system and the marketing cooperative system that were characterized by integrating administration with enterprises from the central level to the township (commune) level. These particular features of the state monopoly of purchase and marketing have caused people to have a wrong understanding of regarding the production and circulation of the commodities under the state monopoly of purchase and marketing as being able to be regulated without resorting to the law of value and to be handled by merely relying on administrative means.

In fact, during the 3 decades of the implementation of state monopoly of purchase and marketing of grain, cotton, and edible oil-bearing crops, the law of value has always displayed its regulating roles in the production of these products.

This is because the state monopoly of the purchase and marketing of grain, cotton, and edible oil-bearing crops has in no way changed the commodity nature of these products, nor is it in a position to do so. Consequently the production and circulation of these products are regulated by the law of value. For example, when the purchase price planned by the state for certain products is relatively rational, the production of these products during this period will develop quite rapidly; but when the planned purchase price defined by the state is divorced from value for a long period, the production of these products during this period will be in a state of stagnation. In the past 3 decades, the development in the production of grain, edible oil and cotton crops can generally be divided into three stages: the first stage is from 1954 to 1957. During this period, the planned purchase price of grain, cotton, and edible oil crops was relatively rational. Production costs were relatively low and agricultural profits were relatively high. During these 4 years, the output of these crops also grew considerably, with cotton growing by 40 percent, grain 17 percent, and oil crops 9 percent. The second stage was from 1958 to 1978. The planned purchase price of grain, cotton, and edible oil crops during this period gradually departed from their value. Production costs grew rapidly and agricultural profits dropped considerably, even to the point where there were no profits at all. Over 21 years, grain output grew by only 56 percent, cotton by 32 percent, and edible oil crops by 24 percent. The third stage was from 1979 to 1982. Agricultural production responsibility system was introduced in rural areas during this period to tremendously fire the enthusiasm of peasants in production. At the same time, the planned purchase price of grain, cotton, and edible oil crops was considerably increased. Although production costs tended to increase, there were still agricultural profits. According to the calculation of typical reference materials, in 1981 (ordinary year), the after-tax net profit per mu was 26.16 yuan for grain, 76.63 for cotton, and 26.22 yuan for rapeseed. Under this condition, good harvests were recorded for 4 successive years, with the output of edible oil crops, cotton, and grain respectively increased by 126 percent, 66 percent, and 16 percent. In the later period of the 1950's, China put forth the principle of "taking grain as the key" to show that the country was paying much more attention to grain production. And yet, under this condition, grain acreage decreased by 200 million mu in a matter of a dozen to 20 years. Consequently, grain production grew very slowly. In the 1970's, efforts were concentrated on growing cotton. Work teams were sent by higher departments for successive years to supervise and check cotton production. And yet the annual cotton output fluctuated around 40 million dan and higher. In 1979, purchase price for cotton was increased, coupled with a higher purchase price for over-quota sales as an award and encouragement. Cotton output hit a record of 50 million dan in 1982, followed by a new record of 70 million dan in 1982. The situation of the production of rapeseed was also improving. Following an increase in the planned purchase price of rapeseed, the output of this crop increased by 137 percent in 2 years. We can see from these examples that the law of value displays its roles in regulating the production of grain, cotton, and edible oil crops that are under the state monopoly of purchase and marketing. We can as well see that the law of value and other economic levers such as price and profits are more efficient than administrative means in guaranteeing the realization of the development plan of agricultural production. Consequently, we must understand that we will be punished if we do not resort to the law of value and other economic means.

The above mentioned situations showed that we cannot just see the particularity of the commodities under state monopoly of purchase and marketing such as grain, cotton, and edible oil crops and neglect the generality of commodities. Particularity is the appearance and generality is the nature. This particularity is the result of government rules and regulations under particular conditions while generality represents a necessity of the socialist production itself. Therefore grain, cotton, and edible oil crops existed as commodities before the emergence of basic changes in the socialist social relations. On the other hand, the state monopoly of purchase and marketing will finally be abolished following changes in the conditions for its emergence.

We must understand that during the 30 years that witnessed the introduction of state monopoly of purchase and marketing, the five manifestations of particularity that are mentioned above has begun, and will continue, to change. For example, administrative interference within agricultural enterprises and interference with the distribution and consumption of grain and edible oil crops by peasant households for their own self-sufficiency no longer exists, and the situation in which state grain and commercial enterprises are in the monopoly of grain and edible oil crops also has changed. The current reform of commercial management system must include such aspects as that in the grain and commercial system, the administration must be divorced from enterprises and the supply and marketing cooperatives in rural areas must be changed into cooperative economic organizations with collective ownership. Other aspects such as state redistribution of the agricultural profits through price and subsidy by state finance for the price of grain, cotton, and edible oil crops that are under state monopoly of purchase and marketing must also be considered during the reform. Therefore, it is quite possible that in future, the particularity of state monopoly of purchase and marketing of grain, cotton, and edible oil crops will be mainly shown in guidance production planning and mandatory purchase planning that are passed down to agricultural production units. The previous method of mainly relying on administrative means to guarantee the realization of production planning and purchase planning may be changed to combining economic means with administrative means to further develop relying on economic means as the main, coupled with the using of administrative means as the supplement. In short, the introduction of state monopoly of purchase and marketing must be based on the law of value and such economic levers as price, profit, tax and credit.

In introducing state monopoly of purchase and marketing of such commodities as grain, cotton, and edible oil crops, we must and can resort to the law of value to regulate the production and circulation of these commodities. This is because the amount of the income of the peasants that are growing such crops depends on price level when they are selling the products. In this way, state planning will be able, through price adjustment, to help agricultural production units and peasants make microscopic decisions to readjust the structure of their cropping.

In using the law of value and resorting to such economic levers as price, profit, tax and credit to regulate the production and circulation of grain, cotton, and edible oil crops, it is imperative to pay attention to combining theory with practice in the following aspects.

First, the relations between planned purchase price and agricultural profits.

The planned price of grain, cotton, and edible oil crops must accord with the needs of socialist basic economic laws. Price must be defined on the basis of production costs, the situations of market supply and demand and government policy so as to develop and control production and encourage and control consumption to balance market supply and demand. But all these can be done only under the condition that the planned purchase price is able to guarantee the agricultural profits of agricultural production units. Planned purchase price should mean cost price plus agricultural profits. If there is no guarantee, the agricultural production units that are producing these crops will have no initiative in production. And in actual work, the relations between planned purchase price and agricultural profits must be handled on the basis of the specific conditions of different crops. Take the situation of grain for example, the cultivated acreage for growing grain in China is on the average over 1 mu per capita and there is no way to expand this acreage. The grain acreage with output lower than the national average per unit output makes up two-thirds of the total grain acreage, and that with output higher than the national average makes up one-third. The earnings of some high-yield cultivated lands have decreased under a situation in which no technical breakthrough has been made, with production costs staggeringly high. To consider it solely from the point of profits, agricultural production in the places with these situations can be regarded as examples for the best investment and output. But seen from the point of balancing the national grain production and demand, to add investments on cultivated lands with decreasing earnings means growing crops in low-yield lands. Investigations have shown that the average per mu grain net income is now 26.16 yuan (according to standard labor value, the same below) and cost profit rate is 51 percent (if the labor value is calculated on the basis of actual living expenses, the net income will be 13.05 yuan, with a cost profit rate of 23 percent) and this figure is no doubt too low. Therefore, grain planned purchase price must be determined and adjusted on the basis of the price of the commodities produced by the cultivated lands with medium and lower levels. Cotton growing is mostly carried out on high and medium-yield lands and only 6 percent is carried out on low-yielding and scattered lands. China is now basically self-sufficient in cotton and the profits from cotton growing are very high. The net income per mu for cotton acreage is 79.83 yuan and cost profit rate is 85.57 percent (if the labor value is calculated

on the basis of actual living expenses, the net income should be 48.2 yuan and cost profit rate is 39 percent). The amount of cotton lands must be kept stable in future and efforts must be made to turn low-yielding and scattered cotton lands into medium and high-yielding lands. Therefore, the planned purchase price of cotton must be determined and adjusted on the basis of the commodities that are produced by medium-yielding lands. But the situations of the production of oil-bearing crops and particularly rapeseed and sunflower seeds are quite different. As the profits of edible oil-bearing crops are too high, the production of these crops has developed blindly and consequently it has surpassed demand. Therefore, the purchase price of rapeseed and sunflower seed must be determined and adjusted on the basis of the price of the commodities that are produced by the cultivated lands with medium and higher yields. In addition, agricultural production is seriously affected by weather conditions that consequently result in variable annual harvests. But the planned purchase price of the commodities that are closely related with the national economy and people's livelihood such as grain, cotton, and edible oil crops must in no way be affected by different annual yields; the price of these crops must be based on production costs and agricultural profit in ordinary years.

Second, the relations of price parity in the purchases of various agricultural products.

There should be rational proportions between the planned purchase price of grain, cotton, and edible oil crops and between the purchase price of these products and the purchase price of other agricultural products. And this rational price parity must be in a position to guarantee that farmland of the same grade will record the same income while the same amount of capital will make the same profit. That is to say, the actual purchase price of various agricultural products must be basically close to the economic effect of the various agricultural crops grown on the same grade lands so that the advantages of natural conditions will accord with economic advantages. In this way, it will be easier for agricultural production units to arrange their crop growing and sales of agricultural products according to state planning for agricultural production, and to plan for the purchase of agricultural products to avoid the contradictions of the contention for land between grain production and the production of certain industrial crops that may happen because of irrational price parity of agricultural products.

At present, the irrational price parity of agricultural products is mainly shown in the fact that the actual grain purchase price is too low. In 1981, the net income of double grain cropping was 34.5 percent lower than cotton income; it was 50.3 percent lower than the net income of sugarcane and 51.6 percent lower than tobacco growing (flue-cured tobacco); the net income of grain growing on half of the acreage in one season was 50.8 percent lower than cotton; and 63.7 percent lower than flue-cured tobacco. The net income of grain growing was 37 percent lower than that of wheat growing and rapeseed growing. All these figures were based on the national average figures and the difference would be much bigger in certain places. As basic figures for the purchase of agricultural

products, awards for the sales of goods and materials, and subsidy for under-price and return of industrial and commercial profits are different in various places, the actual purchase price of agricultural products is consequently different. In fact, there is price parity in each county and township. The basic figure for state purchase in the old regions that are concentrated on producing commercial grain is relatively high but the actual purchase price is low and it is still lower in high-yielding areas. On the other hand, the basic figure for state purchase in the commercial grain producing areas is low while the actual purchase price is relatively reasonable. The actual purchase price of cotton in the old growing areas is relatively reasonable; but in new cotton producing areas, the basic purchase figure is too small or there is no such figure at all, however, there are more awards for the sales of goods and materials and the actual purchase price is relatively high; this situation has affected the market. The production of rapeseed and sunflower seed has also surpassed demand because the basic purchase figure for these crops is too low or there is no such figure and because the actual purchase price is too high. Therefore, the actual grain purchase price in the old commercial grain producing areas must be adjusted upward and the actual purchase price in new cotton producing areas and the actual purchase price of rapeseed and sunflower seed must be adjusted downward. The rate of the adjustment of price parity of agricultural products must be based on balancing market demand and supply.

Third, the relations between agricultural profits and the profits of the processing industry.

In order to enable the planned purchase price of grain, cotton, and edible oil crops to guarantee agricultural profits, the method of redistributing agricultural profits through price must be gradually changed. The amount of the agricultural profits that have been transferred to industry cannot be calculated for the time being. But in comparison with the profits of the processing industry where raw materials are provided by agriculture, we can see that in 1978, six kinds of grain did not make profits while the industrial products that have eight kinds of grain as major raw materials recorded 28.8 percent of annual cost profit rate. It is apparent that these profits included part of the transferred agricultural profits and losses of commercial departments as well as part of the redistribution of the income of consumers (such as wines). Agriculture made certain profits after 1979 following increases in the purchase price of grain and edible oil crops; but the price of these industrial products was also increased. As a result, the situation in which agricultural profits are redistributed through price has not changed. Therefore, the contents of the reform price and tax system must include gradually changing this redistribution method and replacing it with readjustment of agricultural tax and the introduction of income tax. This move will enable agricultural enterprises and industrial enterprises to implement economic accounting and improve management as well as enabling the state to regulate agricultural production through such economic levers as tax and credit. The state may, on the basis of the situations of market supply and demand, levy a certain tax and provide loans with ordinary interest rates with regard to some agricultural products while for some other products, it can introduce preferential tax and interest rates as a move to encourage and control the production of certain crops.

Fourth, the relations between planned purchase price of agricultural products and supply price.

The planned supply price, which is also called the consumer price, of grain, cotton, and edible oil crops must be in line with the level of wages. This situation will guarantee the stability of people's life and is also in the interests of regulating sales and consumption. The planned supply price must include planned purchase price plus commodity circulation expenses and commercial profits. The commercial profits represent a deduction of the agricultural profits from agricultural production departments that is realized by commercial departments in carrying out the business of grain, cotton, and edible oil crops. But for quite a long period, the planned supply price of commercial departments was lower than their planned purchase price, let alone compensating commodity circulation expenses and commercial profits. Taken as a whole, the state is compensating 0.10 yuan for the sale of 1 jin of grain and the compensation for a jin of edible oil and cotton is respectively 0.80 yuan and 0.40 yuan. As a result, purchase price and selling price are inverted, that is purchase price is lower than selling price. This practice has resulted in some disastrous effects. 1) The state annual subsidies for the price of grain, cotton, and edible crops (including imports) have gone as high as more than 2 billion yuan. It is true that these subsidies are helpful in stabilizing the people's life but this move has covered up the losses suffered by the industrial and commercial enterprises that are using grain, cotton, and edible oil crops as raw materials and fodder industry. It has also covered up the actual operating situations of the commercial enterprises themselves. 2) The coupons for grain, edible oil, and cloth and the goal and certificates for state sales of grain have become targets of trading. 3) The planned supply of grain has been added to excessively to surpass actual demand; but at the same time, increases and expansion in the amount of grain and edible oil traded through negotiations have been limited. As a result, there has emerged an enormous surplus of the grain under state monopoly of purchase and marketing and an enormous deficit for the grain that is traded through negotiation. 4) The inverted situations of beans and edible oil are particularly serious. That is to say, the greater the state sales of these products are, the higher will be the losses and subsidies. And as a result, while these products have been stockpiled, consumers do not have enough to meet their needs. 5) The excessively low planned supply price has incited sales and consumption. The processing factories that are using grain as raw materials are not active in using and popularizing starch from wild plants and crops to replace grain and people do not pay enough attention to saving grain. The most serious defect in the inverted sales price and purchase price is that more sales mean heavier financial burden to the state. In addition, such price subsidies have been increasing and not decreasing. This method is easy to introduce but difficult to abolish, easy to expand but difficult to reduce. Any move to abolish or decrease such subsidies will no doubt be opposed by producers and consumers. This practice also has resulted in the fact that the price parity of agricultural products has been confused with the price parity of industrial and agricultural products to cover up the irrational price parity or make the relations between these two kinds of price parity complicated. In short, the inverted state purchase price and marketing price and the price subsidies that are caused by this inverted price will seriously violate the objective law and surpass government

financial capability when they exceed a certain limit. And once this happens, economic life will be affected. Over the past few years, a number of governments and theoretical circles in other countries have studied how to improve the policy of price subsidy and this situation showed that the inverted purchase and marketing price must be gradually resolved.

Fifth, the relations among agricultural, industrial, and commercial departments.

In defining the planned price of grain, cotton, and edible oil crops, it is imperative to consider the relations of the exchange of commodities among socialist independent enterprises. These relations are based on the exchange at equal values. It is unthinkable that the profits of a department are based on the losses of another department or that the losses of a department are shifted to another department. Take the situations of the business of grain and edible oil crops for example. Agricultural production units have certain profits while the purchase and marketing departments do not have commercial profits and they have to cover commodity circulation expenses; on the other hand, the light industrial departments, foodstuff departments, and chemical industrial departments that are using grain and edible oil as raw materials and the fodder departments that are using grain as fodder have made considerable profits. The situation is the same for cotton. The agricultural cotton production units, ginning factories, and textile industrial departments have all made profits while the cotton supply and marketing cooperatives have suffered losses. Therefore, it is imperative that the planned price of grain, cotton, and edible oil crops must be defined in such a way that the related agricultural, commercial, and industrial departments will be able to make profits according to the amount of their capital and it is only in this way that these departments will be able to display initiative in their business.

More than 3 decades ago, the introduction of state monopoly of purchase and marketing represented a great change in grain and commercial fronts and it has made the anticipated, great achievements. But 30 years later, in reforming the economic system in China, it is imperative to stress the importance of taking planned economy as the main. But we must also understand that it is imperative to consciously resort to the law of value and fully make use of such economic regulating means as price, profits, tax and credits. By doing so, we will be able to further display the roles of commercial work in promoting and leading production, guaranteeing supply, and promoting the development of economy.

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JINGJI YANJIU VIEWS MEASURING CURRENCY CIRCULATION

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[Article by Lin Jiken [2651 4949 5146] of the Liaoning Financial and Economic College: "Criterion for Measuring Whether the Amount of Currency in Circulation in the Market Is Normal"]

[Text] Currency circulation is a complicated economic process that is subject to the influences of various factors. Whether or not the amount of currency in circulation in the market is normal can be seen through comparison, analyses, and study of the various aspects of the national economy. We can use a direct and major criterion or indirect criterion for reference, with the former as the main and the latter as the supplement to form a standard system for measuring whether the amount of currency in circulation in the market is normal or not.

1. There Should Be Two Direct and Major Criteria and not One Criterion

Some comrades suggest that like in capitalist countries, whether the amount of currency in circulation in the market is normal can only be measured by one criterion. That is by price. We cannot act in that way. Under the socialist system in China, there should be two direct and major criteria for measuring whether the amount of the currency in circulation in the market is normal; they are the proportion between currency and commodities, and price.

First, the proportion between currency and commodities and price are two different aspects that are closely related to each other through the comparison of currency and commodities. Production and commodity circulation are the primary while the circulation of currency is derivative. Commodity circulation is the premise of currency circulation while the existence, scale, pace, and changes of currency circulation are determined by commodity circulation, and without commodity circulation there will be no currency circulation. Therefore, the amount of currency in circulation can only be compared with commodities. There are two different aspects in comparing currency and commodities. One concerns the proportion between commodities and currency, that is the proportion between the total value of commodities and the total value that is represented by the currency. The process of circulation in society is composed of the circulation of commodities and the circulation of currency and, therefore,

objectively there exist the proportionate relations between commodities and currency. The other concerns price level which means the amount of the value that is represented by currency and that is reflected in the price of commodities. The amount of the value that is represented by currency is determined by the amount of currency. Increases in the amount of currency issued mean decreases in the value that is represented by unit currency and these decreases are shown in the increases of the price of commodities. Therefore, excessive issues of currency are manifested in decreases of the proportion between currency and commodities and increases of commodity price. These are the two different aspects that occur in a process in comparing currency with commodities. Therefore, in no way should there be just one criterion for measuring the amount of currency in circulation; there must be two criteria.

Second, consumers are most concerned about those commodities which are available to them and the low price of these commodities. Most of the currency that is now in circulation in China is in the hands of the people. This part of the currency is mainly income from "distribution according to labor" and it is required for meeting needs in material and cultural life. Purchasing power cannot be realized if people have no chance to buy quality commodities even if they have money. If price increases, people will spend more money for the same amount of commodities. Under this condition, it is quite possible that people's actual living standard will drop.

Third, if the proportion between currency and commodities is analyzed based on the objective needs of the law of currency circulation, it can be divided into the three aspects of the amount of commodities, the amount of currency, and the pace of the circulation of currency. And with an addition of commodity price level, these two criteria reflect the internal relations of several factors of the formula of the law of currency circulation as put forth by Marx. Therefore, the comparison of the proportion between currency and commodities with the historical statistics and the comparison between high price and low price will reflect the actual currency now in circulation as compared with the amount of the currency that is needed. These two criteria represent two different manifestations of the roles of the law of currency circulation and these two different aspects are inseparable.

Fourth, commodity price will increase once the proportion between currency and commodities has reached a certain level and under this condition, the amount of currency is higher than the volume of commodities and the value that is represented by unit currency consequently drops. When the amount of currency has reached a certain level, the varieties of the commodities that are in short supply will gradually expand and commodity price will consequently increase. Therefore, the drop in the proportion between currency and commodities and increases in the price of commodities are the result of the increases in the amount of currency. These situations represent two different reflections of the process from quantitative change to qualitative change.

Fifth, under the socialist system, the emergence of excessive circulation is underlying at the beginning. Commodity price in this society is relatively stable because of the introduction of a planned price system. Unlike in capitalist society where increases in the amount of currency in circulation are directly reflected in increases of commodity price, an excessive amount of

the currency in circulation in socialist society is, first of all, reflected in the short supply of commodities that are in good demand. And at this time, the short supply of commodities cannot be reflected by the criterion of price alone. But we must pay particular attention to early stage emergence of the excessive amount of the currency in circulation and solve this problem in its early stage by resorting to the two criteria.

Therefore, it can be seen that under the socialist system in China, we will be able to reflect flexibly and in an overall way whether the amount of currency in circulation in the market is normal only when we resort to the two criteria.

2. The Proportion Between Currency and Commodities Has Changed, But the Basic Method Remains Unchanged

It is an objective need of the law of currency circulation that the amount of currency in circulation must accord with the volume of commodities in circulation. In actual work, it is imperative that the proportion between currency in circulation and commodities, that is, the quantitative and internal relations between these two aspects, must be kept normal. Concretely speaking, it is imperative to maintain the normal proportionate relations between the amount of currency in circulation in the market and the retail volume of commodities in society and between the amount of such currency circulation and the volume of the commodities. The retail volume of social commodities represents the total volume of the consumer goods that are supplied by retail markets for urban and rural population and social groups and part of the agricultural means of production that are supplied to the rural areas. These goods represent the materialistic foundation to guarantee the realization of market purchasing power and meet the needs in production and people's life. The retail volume of social commodities has close relations with the stock of commodities which represents the reserves of commodities that are in circulation. Therefore, the supply of commodities will be normal only when there is a certain stock of commodities. Consequently, it is possible to judge whether the amount of the currency in circulation in the market is normal through studying the proportionate relations between the amount of currency in circulation in the market and the volume of stocked commodities. When both the amount of currency in circulation and the volume of stocked commodities have increased and the proportion between these two aspects remains unchanged, it means that the amount of currency in circulation in the market is normal. If the amount of currency in circulation in the market increases and the stock of commodities decreases below the level that is required by rational reserves, it means that the amount of the currency in circulation in the market is excessive. Therefore, excessive currency circulation is sometimes covered up. That is to say, if we study the amount of the currency in circulation in the market by proceeding from the proportion between the amount of currency in circulation and the retail volume of social commodities, we will find that the stock of commodities has not or only slightly decreased. But the fact that the market is supplying out from the commodities in stock. Therefore, when the stock is used to a certain extent, the supply of commodities in the market will become more tight. It is imperative to analyze whether the consumer goods in stock are marketable. If the commodities in stock are enormous but of low quality and high price or their varieties are not in demand on the market, these commodities are of course not in a position to recover currency.

What is the proper proportion between currency and commodities? In the past, the method used was to compare this proportion with the statistics of the circulation of currency in history during normal periods; this is called "experience statistics." Currently, there are two differing views in this aspect. One view suggests the continued use of the method of "experience statistics," while another view regards this method as outdated. These two views merit discussing. In order to solve this problem, it is imperative, first of all, to study the nature of "experience statistics." For quite a long period the proportion between currency and commodities has been regarded as merely reflecting the pace of the circulation of currency and this method is no doubt imperfect. In fact, the proportion between currency and commodities represents the pace of currency circulation and commodity guarantee. It is true that the proportion between currency and commodities reflects the pace of the circulation of currency, but this pace only represents an approximate value. It is because the pace must include the average pace of the currency as the means of circulation and as the means of payment. But the proportion between currency and commodities does not include the circulation of noncommodity currency. And the factors that are affecting the pace of the circulation of commodities are complicated. For example, such factors as the channels of the circulation of commodities, decreases in the price of commodities, and the distribution of commercial network can affect the pace of the circulation of commodities and consequently the pace of the circulation of currency. Noncommodity factors are still more complicated. Since the factors that are affecting the pace of the circulation of currency are complicated, the proportion between the amount of the currency in circulation and the retail volume of social commodities can in no way include all the related aspects.

The proportion between currency and commodities also reflects the commodity guarantee of the stability of the renminbi. For example, seen from the point of history, an 8-yuan commodity retail volume and a 5-yuan commodity stock for 1 yuan are enough to guarantee the stability of the renminbi. If the relations between currency and commodities are lower than these figures, it means that the amount of the currency in circulation in the market is excessive; if the proportion is higher than these figures, it means that the amount of the currency in circulation in the market is below level. Therefore, the proportion between currency and commodities reflects not only the pace of the circulation of the currency in the market but also the situation of the commodity guarantee of the renminbi. Thus, seen from the latter sense, the current amount of the demand of currency can be calculated with a simple method. For example, during the normal period of the circulation of currency in history, the proportion between currency and retail volume of social commodities was 1:8, which meant that 8 yuan commodity guarantee was needed for 1 yuan currency. But now economic conditions have changed and more channels for the circulation of commodities have been formed. If the retail volume of the commodities of state commercial enterprises and supply and marketing cooperatives only make up 80 percent of the commodity retail volume of the whole society while the remaining 20 percent are for collective commerce, individual commerce and trading in free markets, the proportion of 1:6 between the amount of the currency in circulation in the market and the retail volume of the commodities of state commerce and supply and marketing cooperatives would

be enough. The normal circulation of currency in the market will be guaranteed by the new conditions of the collective and individual commerce and free markets. This method of calculation is more simple and precise than the method of purely regarding currency and commodities as representing the pace of the circulation of currency and calculating one factor after another that affects the pace of the circulation of currency because of the emergence of new economic conditions.

As economic conditions have changed, the proportion between currency and commodities must also be changed. But we must understand that the basic method of comparing the proportion between currency and commodities cannot be denied. This method is applicable not only at present but also in future as long as currency and commodities still exist. Unlike studying natural phenomena, it is often that social phenomena cannot be explained and resolved by relying on a single mathematical formula. The study of social phenomena must begin from such aspects as studying and comparing the emergence and development and the process of the changes in history of the phenomena. This is the basic method for the study of social phenomena. Therefore, the experience of statistics of currency and commodities during the normal periods in history of the circulation of currency in the market is still applicable. That is to say, according to the present new situation in which there exist various channels for the circulation of commodities, the production responsibility system has been introduced in rural areas, the use of cash has been expanded, the links for maintaining cash have increased and changes in the structure of the demand for commodities by the masses of people have taken place. Consequently it is necessary to find normal figures that are in line with all these economic conditions. We can in no way deny this basic method of comparing currency with commodities. It is imperative to find the figures to represent the general proportion between currency and commodities under new economic conditions and these normal figures must be stable as long as there are no changes in economic conditions. With this method, we will be able to study the new and normal figures for new period in the future.

3. The Main Criteria of Price Must Be Compared and Analyzed From the Point of Various Price Forms

The price of commodities reflects the features of certain production relations by which the production of commodities exists and develops. Under capitalist society, the excessive amount of currency in circulation results in decreases of the value that is represented by unit currency and this situation is shown in price increases. In fact, price increases reflect the extent of inflation. Consequently, the rate of price increase represents the inflation rate.

Under the socialist system, commodity price has two features: the planning of the forms of price and the stability of commodity price. China is introducing a planned economy on the basis of the means of production with socialist public ownership, coupled with price control. These measures are objectively required by socialist planned economy. But the introduction of planned pricing in no way means that it is not necessary for the state, in defining planned price, to

consider the economic law, particularly the roles of the law of value. On the contrary, it is imperative on the basis of objective needs of economic law to define and readjust price in a planned way and carry out price defining and control on the basis of the understanding and using objective economic law. In this way, we will be able to avoid blindness and guarantee that the national economy will be able to develop in a planned way, proportionately and healthily.

Certain measures have been taken by the state over the past few years to reform the price control system, with the price of major commodities remaining under the unified control of the state. At the same time, various and flexible price management forms also have been introduced for other commodities on the basis of their specific conditions. The price of certain commodities is allowed to float within a certain range; the price of third category agricultural and sideline products may be negotiated during transaction; the price of small daily industrial commodities may be defined through consultation between industrial and commercial departments and the price of the goods traded in free markets in rural and urban areas is free of control. These measures have gradually changed the method by which the state alone is entitled to define price. The introduction of the above-mentioned various price forms has strengthened the influence on price of the changes of the amount of currency in circulation in the market. There is also a problem in the circulation of purchasing power. That is, when commodities with planned price are in short supply, part of the social purchasing power will be shifted to commodities with market price. As a result, the supply of certain commodities will become tight and price will increase. Contrarily, if the commodities with planned price are in ample supply, they will draw the purchasing power from the commodities with market price, resulting in a drop in market price. It is true that the commodities with market price and floating price are limited in China, but because of the circulation of purchasing power, the amount of the currency in circulation in the market will become excessive to affect the price of these commodities and planned price.

As China has introduced planned price as the main, coupled with various price forms, the role of price as a criterion for measuring whether the amount of the currency in circulation in the market is normal has consequently been strengthened. At the same time, whether the amount of currency in circulation in the market is normal is reflected to a different extent in various price forms. Therefore, in using price as a criterion for measuring whether the amount of currency in circulation in the market is normal, it is necessary to compare and analyze various price forms.

Whether the amount of currency in circulation in the market is normal is primarily reflected in the price in free markets. Free market price is basically determined by buyers and sellers through bargaining. If free market price is considerably higher than state planned price, it usually means that the amount of currency in circulation in the market is excessive. This situation shows that more purchasing power has been shifted to free markets. Under this condition, the demand for commodities is higher than supply and price will consequently increase. Contrarily, if free market price is considerably lower than state planned price, it means that the amount of currency in circulation in the market

is below level. This situation shows that social purchasing power is mainly realized by state planned markets, the demand for commodities in free markets is lower than supply, and the price of commodities will consequently decrease. Therefore, free market price usually can be regarded as a good criterion for measuring whether the amount of the currency in circulation in the market is normal.

In addition, an excessive amount of currency in circulation in the market can also be seen from floating price and negotiated commodity price. Floating price is defined on the basis of planned price to maintain the right of the state in controlling price, to entrust enterprises with a certain right to define price, and to make price fluctuate within the range permitted by the state and on the basis of the situation of market supply and demand. A number of the third category agricultural and sideline products are not included in state planned purchasing. The purchasing and selling price of these products is defined through negotiation and the demand and supply of these products are reflected through market. Therefore, the amount of the currency in circulation in the market has considerable influence on these products. When the amount of currency in circulation in the market is excessive, the price of these commodities will float up and the price of commodities [word indistinct] through negotiation will increase. Consequently, when the amount of currency in circulation is below level, commodity price will float down and the price of commodities defined through negotiation will drop.

Finally, the law of value still displays its roles in China, where the state is implementing the system of planned price. When short supply of commodities has spread wider and when the excessive amount of currency in circulation reaches a certain extent, planned price cannot but be increased. Therefore, in general, increases in planned price show that the amount of currency in circulation in the market is excessive. In particular, increases in the price of daily necessity goods show that the amount of currency in circulation in the market is seriously excessive.

But under socialist system in China, the ups and downs of price are not necessarily caused by the amount of currency in circulation but by other factors. For example, the scissors difference between the price of industrial and agricultural products is yet to be eliminated. The price parity among the products of industrial departments is somewhat irrational. All these must be readjusted on the basis of the objective needs of economic law. Such price readjustment is rational and it is not related with either excessive amounts or below-level amounts of currency in circulation in the market. Therefore, we cannot regard price increases and decreases as merely caused by the amount of currency in circulation in the market, they must be concretely analyzed.

4. Indirect and Referential Criterion

The above mentioned two criteria are direct and major criteria for measuring whether the amount of currency in circulation in the market is normal. These two criteria are enough to reflect the situation of the amount. But the circulation of currency involves many aspects. Therefore, in order to study

and analyze the amount of currency in circulation in the market in a deep-going way, from these two criteria we can derive the relations between the amount of currency in circulation and industrial and agricultural gross output value and national revenues as an indirect and referential criterion.

The proportion between currency and commodities is determined by the volume of commodities that are in supply and the volume of commodities that are supplied is determined by the volume of commodities that have been produced. Production determines circulation and the latter affects the former. Consequently, there is a derivation of the comparison between the amount of currency in circulation in the market and gross industrial and agricultural output value. Gross industrial and agricultural output value represents a criterion that reflects in the form of value the gross output value of various industrial and agricultural products during a certain period across the country or in a region. Currency represents a common measuring unit for various industrial and agricultural products. Industrial and agricultural products must use currency not only as a yardstick for measuring their pace but also as a medium for measuring their circulation. A certain volume of industrial and agricultural products needs a corresponding amount of currency.

But this question is not simple. It is because social products include the means of production and the means of consumption. The mode of currency payment includes directly using cash and settling accounts through bank transfers. In general, the circulation of the means of production does not directly change the amount of currency in circulation in the market, nor does it involve the change of the proportion between currency and commodities. And yet we cannot say that there are no relations between the production and circulation of the means of production and the circulation of currency in the market. As the expansion of social reproduction is divided into two categories, the production of the means of production is closely related with the production of the means of consumption. Through bank transfers, reproduction is changed into various channels for cash circulation to affect the circulation of currency in the market; but the reproduction itself is not included in currency circulation.

Therefore, the method of comparing the amount of currency in circulation in the market with gross industrial and agricultural output value sometimes does not work. Consequently, it is necessary to compare gross industrial and agricultural output value and gross light industrial output value with the amount of currency in circulation in the market. Whether the amount of currency in circulation in the market is normal is closely related to whether agricultural production has increased. This is because the majority of the consumer goods that are supplied by the market come from agriculture, or they are light industrial products that have been processed on the basis of agricultural and sideline products as raw materials. It is easier to keep the circulation of currency in the market normal when agricultural output has increased. The consumer goods that are provided in the market not only came from agricultural production but also include light industrial products. Therefore, to a certain extent, whether the circulation of commodities in the market is normal depends on the growth of light and textile industries. The circulation of currency in the market can be kept normal more easily with light and textile industries are able to provide more daily necessity goods. The consumer goods that are directly

provided for daily necessities by heavy industrial products are few. Therefore, the amount of the currency covered by heavy industrial products is little. The development of heavy industry requires more currency investments which are mainly recovered by agricultural and light industrial products.

The amount of currency that can be added for circulation by a society mainly depends on the national revenues created by this society. The volume of total social products is C plus V plus M . C represents the transfer of the old value which has changed from currency into the means of circulation and payment. Only the newly created value of V plus M [not further explained] requires the addition of new currency.

But the national revenues cannot be directly compared with the amount of currency in circulation in the market. Substantially, the national revenues are shown in a certain volume of the means of consumption and the means of production. Under the condition of the existence of commodity currency, these national revenues in substantial form are measured by their value and concentrated and distributed in the form of currency. Of these revenues, the accumulated funds are in general transferred into accounts while consumption funds are included in the circulation of currency in the market. Therefore, in analyzing decreases and increases of the volume of the consumption of the national revenues, it is necessary to compare them with the amount of currency in circulation in the market and compare and analyze these two aspects as a referential criterion for measuring whether the amount of currency in circulation in the market is normal.

CSO: 4006/339

ECONOMIC MANAGEMENT

STATE COUNCIL ISSUES LOCAL INDUSTRY REGULATIONS

OW051223 Beijing XINHUA in English 1154 GMT 5 Mar 84

[Text] Beijing, 5 Mar (XINHUA)--China's local processing industry will be boosted under State Council regulations published today.

All agricultural and farm side-line produce should be processed locally whenever possible, the regulations say. Rural areas should also be given priority on new processing equipment.

Individuals and state or collectively-owned enterprises can enter the industry independently or in mixed-ownership undertakings under overall plans drawn up by county or provincial governments. They may use all farm produce except those under state purchase quotas, the regulations add.

The move is aimed at aiding the local farm processing industry of which the output value now accounts for only 7 to 8 percent of China's total. It will also provide new employment opportunities in rural areas, where 800 million of the country's one billion people live. One-third of the rural labor force has become surplus in recent years due to higher productivity. The new regulations will further help make more comprehensive use of farm products and raise economic efficiency, the State Council says.

CSO: 4020/82

ECONOMIC MANAGEMENT

ENTERPRISE DIRECTORS TAUGHT MODERN MANAGEMENT

OWO20856 Beijing XINHUA in English 0810 GMT 2 Mar 84

[Text] Beijing, 2 Mar (XINHUA)--China will start a massive training program for directors and managers of large and medium-sized enterprises in the use of electronic computers, according to the State Economic Commission.

This is part of the nationwide effort to improve enterprise management and raise economic efficiency.

The training program, jointly sponsored by the State Economic Commission and the China Enterprise Management Association (CEMA), will be conducted by institutes of higher learning, cadre schools and local branches of CEMA and some large enterprises. The program will begin in June. Managers and directors of 3,000 large and medium-sized enterprises will be rotated in 3 years.

Officials from the State Economic Commission say that the state has selected 20 large enterprises to try out modern management methods introduced from abroad. The test will be duplicated in enterprises selected by various provinces, municipalities and autonomous regions.

The new methods include total planning management, total quality control, total economic accounting, network techniques, optimization, systems engineering, value engineering, market forecasting, decision making methods, abc management, linear programming and the Toyota mode of production.

A big drive to popularize modern management methods, including the use of electronic computers, will start at the beginning of 1985 and a modern enterprise management system is expected to be set up nationwide by 1990.

Officials say that most small enterprises in China still use empirical methods, though scientific methods are being applied in some bigger enterprises. Such unsystematic methods do not serve the reforms now under way in all sectors of the national economy and tend to hold back improvement of economic returns. China is trying to update management methods to make them compatible with the technological advances by the year 2000, the officials say.

Initial results have been reported in the experimental application of modern management methods and theories.

In Liaoning, one of China's major industrial centers, 1,100 factories are testing 21 modern methods of management.

The Liaoyang water meter plant reports that value engineering has helped reduce the weight of the copper meter case from 340 grams to 250 grams with a savings of 36 tons of copper annually.

The target management method helped the Fuxin cement works reduce the cost of cement from 100 yuan per ton in 1980 to less than 50 yuan in 1983.

The province has trained 230,000 factory executives and managerial personnel in the application of modern management methods and theories.

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ECONOMIC MANAGEMENT

GONGREN RIBAO REPORTS CHONGQING ECONOMY IMPROVING

OW021303 Beijing XINHUA in English 1207 GMT 2 Mar 84

[Text] Beijing, 2 Mar (XINHUA)--Today's WORKERS' DAILY devotes a full page to the initial results achieved through restructuring of the economic set-up in Chongqing, a leading industrial city in southwest China, in the past year.

The paper says the good economic results are shown in the growth of total industrial and agricultural output of the city and the areas under its administration in 1983 which was 8.88 percent over 1982. The total volume of retail sales there was 7.46 percent up, and fiscal revenue 10.18 percent more.

In early 1983 the party Central Committee and the State Council made a decision to carry out a full-scale restructuring of Chongqing's economic set-up as an experiment while enlarging the area under its administration to encompass 12 counties, eight more than before. The city now leads in population which numbers over 13 million.

Over the past year, the paper says, the city's industrial departments have assisted smaller county and district factories by disseminating techniques and transferring equipment. New products included motorcycles, miniature vans and food packaging materials. Compared with 1982, the industrial output value of local state-owned enterprises was 12.53 percent higher than last year, while the profit delivered to the state increased by over 180 percent.

To improve the commodity circulation system the city has established trading centers for capital goods and consumer goods, and wholesale markets for small household articles. Commercial districts have been designated for pedlars to set up booths and rural markets for the convenience of management.

Last year foreign trade departments sent 10 delegations abroad to negotiate trade and discuss projects to attract foreign investment. Initial agreements have been reached on 20 projects using foreign funds and 35 more projects are still under discussion.

As a major Yangtze River port, Chongqing last year handled 17.5 percent more cargo than in 1982 and gained a profit of one million yuan (U.S.\$500,000).

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JOURNAL ON MULTIPLE LEADERSHIP OF ENTERPRISES

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[Article by Gong Guanshi [7895 6034 1395]: "How To Resolve the Problem of Multiple Leadership in Industrial Enterprises"]

[Text] The present situation in which industrial enterprises are under multiple leadership is very serious in China. Such management leadership has increased the burden of these enterprises and affected their efficiency. This problem has become so pressing that it has to be urgently resolved in reforming the industrial management system.

I. The Reasons For the Emergence of Multiple Leadership

The reasons for the emergence of multiple leadership over industrial enterprises are complicated, but they can mainly be divided into the following three aspects:

First, the subordinate relations of industrial enterprises are complicated. Enterprise subordinate relations have changed many times since the founding of the PRC. In particular, following the measures that were taken on two occasions to "centralize and decentralize" certain big and backbone enterprises, the subordinate relations of state-owned industrial enterprises have become even more complicated. As a result, there have emerged various subordinate relations and management methods that can be divided into the following:

1. The enterprises under the central government. The personnel, finance, materials, production, supply, and marketing of these enterprises are under centralized and unified management of the government departments concerned. These enterprises are limited in number; they are mainly military industrial enterprises.
2. Double leadership. Those belonging to this category are the enterprises that are mainly under departmental management. That is to say, these enterprises are subordinate to departments but are under the leadership of both departments of the central government and localities, with management by departments as the main. The departments of the central government are responsible for the management of planning, sales, supply of goods and

materials, wages, capital construction, and finance. Localities are responsible for personnel management and party organizational relations.

3. The enterprises with dual leadership by provinces and cities as the main. These enterprises are subordinate to provinces and cities and are under the leadership of both central government departments and provinces and cities, with provincial and city leadership as the main. Central government departments are responsible for the management of production, supply, and marketing of these enterprises, while provinces and cities are responsible for the management of finance, personnel, and party relations.

4. The enterprises that are under the tripartite leadership of departments, provinces, and cities, with city management as the main. Cities are responsible for the management of finance, personnel, and wages of such enterprises. Provinces are responsible for the management of the distribution of output value and energy, with departments being responsible for the management of the distribution of output and major raw materials, scientific research, and the development of new products.

5. The enterprises under the management of provinces. This means that the various aspects of these enterprises, such as personnel, finance, materials, production, supply and marketing, party relations, and administration are all under the unified management of provinces.

6. The enterprises under the dual leadership of provinces and cities (prefecture), with provincial management as the main. Provinces are responsible for the management of production and other business activities of these enterprises, with cities (prefectures) being responsible for party relations and personnel relations.

7. The enterprises under the dual leadership of provinces and cities (prefectures), with management by the latter as the main. Provinces are responsible for the management of planning and the supply of major raw materials, while other aspects are under the management of cities.

8. City (prefectural) enterprises. With regard to these enterprises, cities (prefectures) are responsible for the management of major economic activities.

9. The enterprises under the management of counties that are responsible for the former's major economic activities.

10. The enterprises under the dual management of cities (prefectures) and counties.

In short, the subordinate relations of industrial enterprises are mainly determined by the relations through which the enterprises hand over their profits to higher departments. However, at the same time, the economic activities of these enterprises are controlled by different departments and according to specific conditions of these activities.

Second, there exists multilayer management, and yet it is often that enterprises are directly commanded by the departments concerned by way of bypassing the intermediate departments.

The organs of political power in China are divided into the four levels of central government; provinces, autonomous regions, and municipalities, counties, and townships. Although prefectures are agencies of provincial authorities, they are, in fact, exercising the governmental function at one level. During the previous period, we resorted to the administrative method in carrying out economic management. Therefore, with the exception of the township, which is not in a position to manage industrial enterprises, the rest of these organs are responsible for the management of state-owned industrial enterprises. Some organs have set up management bureaus and administrative companies under the management of government industrial departments to directly control industrial enterprises. There also exist subordinate relations between various levels. The result is that industrial enterprises are under multifaceted management. The current situations showed that the enterprises under the management of the central government are at least subject to the management of four to five levels. Prefectural (city) enterprises are under the management of as many as 10 levels, to say nothing of the situations of county industrial enterprises. In addition, the management departments at various levels do not strictly follow the principle that directives must be passed down from higher departments to lower departments without bypassing the intermediate departments and that each department must be responsible for its own task. Therefore, the situation which is often referred to as "thousands of pieces of thread from above with a single needle at the grassroots level" has consequently emerged.

Third, confusion between the responsibility of management and functional management. Each enterprise should have its own management of the enterprise on behalf of the government of the same level. In addition, there should also be a financial department, planning department, goods and materials supply department, and labor department in this enterprise, and these departments are responsible for the functional management of the whole enterprise. According to the principle of democratic centralism and functional management, the various functional departments are working as consultants to the governments of the same level. In general, these departments do not directly issue mandates to enterprises; the management over enterprises can only be realized through management departments. But now, the management right of enterprise management departments is too little and in general they are only responsible for production planning and handing profits over to higher departments. Considerable business is directly handled by functional departments in their contact with enterprises, bypassing management departments. Consequently, the management departments are not in a position to create the necessary conditions for enterprises to carry out their normal production and other business activities; as a result, enterprises cannot but carry out their activities by relying on their own ability. In addition, local party, administrative, workers' union, and social organizations are also directing enterprises through various channels.

II. Some Opinions About Avoiding Multiple Leadership

(1) The subordinate relations of enterprises must be readjusted on the basis of the features of the products of different trades, and the rights of the central government and localities in the management of enterprises must be defined.

State-owned enterprises must be subordinated to the first-level government. This situation is determined by the existence of the means of production with public ownership and it must be put under the management of certain levels on the basis of such features as the size of these enterprises, their features, and the nature of their products. The enterprises that are under the direct management of the central government must include:

1) The enterprises that should be managed concentratedly because of their features, such as railways, aviation, post and telecommunications, oil, electric power, and military enterprises. 2) Big and backbone enterprises with enormous products, enormous planned transfers of products, wide coordination in producing complete sets of equipment, and tremendous effect on the national economy such as ship building, vehicles, petrochemicals, and metallurgical complexes. 3) The enterprises that are producing such products as heavy-duty machinery and big and complete sets of equipment that are unifiedly distributed by the state. These enterprises include those producing big power generating equipment and big machine tools.

Central government departments must have full decisionmaking powers over the production and other activities of the enterprises under their direct management in such aspects as personnel, finance, goods and materials, production, and supply and marketing, and they must bear responsibility. Localities have no right to interfere with the production activities of the enterprises under central government departments, but localities must display their roles in the following aspects: 1) Being responsible for party work and political and ideological work in enterprises; 2) check and approve the land that is to be used for construction projects and organize workers to carry out the projects; 3) being responsible for the supply of goods and materials in localities; 4) organize social services in such areas as solving the supply of the means of subsistence, housing and cultural life of workers, and education of their sons and daughters.

With the exception of the above mentioned various types of enterprises, all enterprises must be mainly put under the management of localities, but the method of multilayer local management over these enterprises must be changed. The subordinate relations between localities and enterprises must also be readjusted in the following ways:

1. In principle, provincial industrial bureaus must not be directly involved in the management of enterprises. Practice over the past many years proved that there are many defects in provincial industrial bureaus directly managing enterprises. First, these bureaus can easily involve themselves in the direct management of enterprise concrete business, to the neglect and weakening of the management over industry itself. Second, it is often that these bureaus are more concerned with the production planning,

supply of goods and materials, technical reform, and investments of the enterprises under their direct management and, in these areas, put pressure on the enterprises that are not under their direct management. This practice is not in the interest of objective needs, nor is it in the interest of unifiedly organizing production on the basis of the situation of enterprise business operation and economic effect. Third, it is not in the interest of organizing coordination among specialized departments and developing various united economic bodies on the basis of cities. Fourth, provincial industrial bureaus have limited autonomy and are the focus of contradictions between higher departments and lower departments (it means that these bureaus can easily contradict central government departments and the cities where the enterprises are located). Therefore, except in the few provinces and regions that are characterized by backward economy, weak industrial foundation, and few big and medium cities, it is not advisable for the industrial bureaus in most provinces to directly manage enterprises.

2. Local industrial enterprises must be mainly put under the management of cities and prefectures. Cities represent a product of the social division of work and the development of the commodity economy. The development of cities mainly relies on industrial enterprises. In general, cities have advantageous natural conditions, transportation facilities, and close economic relations with neighboring regions. In particular, central cities have a strong industrial foundation, departments of various trades, more advanced facilities for scientific research and education, richer management experience, and many industrial production service departments. Therefore, cities have the basic requirements for industry management. Practice by many regions in developing their economy proved that to put industrial enterprises under city management is in the interest of unifying party and administrative leadership, rationally using raw materials and energy, organizing coordination among nearby specialized departments in producing complete sets of equipment, reorganizing and combining specialized departments, comprehensively making use of resources, and protecting environments and is in the interest of industry in supporting agriculture. Therefore, the majority of the enterprises that are now under provincial management must be put under city management. In addition, the small state-owned industrial enterprises that are under the management of prefectures are mainly turning out products by making use of the raw materials available in localities to serve the economic construction and people's life in the localities. Therefore, in order to enable such prefectures to display their initiative in promoting the development of local industry, it is imperative to maintain the subordinate relations of these enterprises. That is to say, these enterprises must still be put under prefectural management.

3. The subordinate relations of the transcity and transregional united enterprises may be defined on the basis of the extent of the relations of their production and economic activities with the places where they are located. Generally speaking, the main factories and companies of the united enterprises must be put under the management of the cities where they are located. The factories that are subsidiaries of companies must be managed by these companies.

4. The dual and multiple subordinate relations that are based on economic relations must be abolished. The dual and multiple leadership over the production activities of enterprises is the product of many changes in enterprise subordinate relations and constitutes an important reason for such defects as shifting responsibilities and disputing over trifles in production and different policies from different departments. The dual and multiple subordinate relations must be abolished according to the principle under which the department to which enterprises are subordinated must have full decisionmaking powers over the personnel, finance, goods and materials, production, and supply and marketing and other economic activities of these enterprises. And following the abolishment of such leadership, these enterprises must be put under the management of central government departments or under city management.

In order to readjust the subordinate relations of enterprises as mentioned above, the current financial system under which the economic interest of enterprises are linked with the departments and regions to which they are subordinated must be replaced by the tax financial system. In the future, all enterprises must pay tax to tax revenue departments, irrespective of their subordinate relations. And the financial revenues of the central government and localities must be solved through dividing taxes into different types and the retention of tax revenues. In order to step up the construction in infrastructure in cities and to enable these cities to be concerned with the enterprises where they are located and create conditions for the production of these enterprises and the life of workers, it is imperative that all enterprises pay urban construction tax to the local government.

Following the readjustment of the above-mentioned principle, the subordinate relations of state-owned enterprises will be mainly maintained in the following three forms: First, few enterprises under the management of the central government; second, the enterprises under city management that are in great number; and third, part of the small enterprises that are under prefectural management. In order to fully display the initiative and creativity of enterprises in production, it is imperative in the future that all enterprises must become relatively independent as producers of commodities, irrespective of their subordinate relations. It means that enterprises must be entrusted with certain decisionmaking powers and they must be relatively independent in economic effect.

(2) The relations between enterprise management departments and functional departments must be explicitly defined and enterprises must be put under single leadership.

The problem of multiple leadership will still have to be completely resolved even after enterprises are put under management of first-level government. This is because the government will consequently put these enterprises under the management of such management departments as certain industrial departments and bureaus. In addition, other functional organs of the governments that are in parallel with these management departments,

such as financial, labor, and goods and materials functional organs, are also in control of the related economic activities of enterprises. Therefore, it is very important that management organs and functional organs have their own specific responsibility, with definite mutual relations between them.

According to the principle of monolithic management, there should be only one enterprise management unit to manage enterprises on behalf of the government. The economic relations between the state and enterprises are mainly shown in an enterprise's obligations to the state and the rights of these enterprises which are shown in the economic responsibility system of combining responsibility with rights and interest. Correspondingly, the economic management organ representing the state must also have rights and responsibilities in its relations with enterprises. Therefore, this management unit must also have the necessary conditions so that it will be able to realize its rights and responsibilities toward the enterprises, and it must mainly have three functions. First, it carries out its rights and responsibilities by managing enterprises in a planned way. This management organ must, on behalf of the state, be responsible for unifiedly passing down to enterprises scientific and comprehensively balanced plans (including the plans for production and marketing, goods and materials, energy supply, wages, capital construction, and technical reform) and various directives and mandates. Therefore, the present chaotic situation in which planned quotas are directly passed down to enterprises under the management of various functional departments must be changed. The quotas that are included in planning and under the management of different departments may be put forth by the departments concerned, but these quotas must be comprehensively balanced by the planning department before they are unifiedly passed down to enterprises by the management department. The directives and mandates of various departments concerned for enterprises must also be passed down to enterprises through the management department. The management department must hold consultations on the contradictions between various departments concerned and between departments concerned and the management department, and the unanimous opinions must be passed down to enterprises by the management department. The management department has the right to pass down to enterprises various plans, directives, and mandates are correct. This department is also in the position to manage all the matters that have to be resolved by higher departments for enterprises in carrying out planning and mandates. Second, the economic management organ has the right to appoint and dismiss as well as manage enterprise senior leading cadres. One of the important criteria for distinguishing state enterprises from collective enterprises is that the appointment, dismissal, and investigations of senior leading cadres of state enterprises are carried out by state management departments. In the past, there existed the situation in which the right of personnel management was seriously divorced from responsibility. That is to say, the departments that are responsible for the management of cadres were not involved in the management of enterprise production and business activities, while the departments that are responsible for the management of enterprise production and business activities were not in the position to manage cadres. The problem of enterprise senior leading cadres who are incapable in management

work usually cannot be resolved in time because the cadre management department and enterprise management department have different views on the cadres. In the future, the senior leading cadres of enterprises must be put under the unified management of the management department of these enterprises; as a consequence, the traditional method by which enterprises are divided into city level, prefectural level, and sectional level must be changed. This is because at the present stage, a number of enterprises are at the same level with or even higher than their own management departments, and if the management is carried out on the basis of the same level, it will not be possible for management departments to become directly responsible for the senior cadres of the enterprises under their management. Dividing enterprises into several levels represents an important manifestation of managing enterprises solely through the administrative method. On the other hand, as relative independent economic bodies, enterprises can in no way be regarded as superior and inferior. The political and economic treatment of factory directors and managers must be defined on the basis of their grades and contributions and not on the levels of enterprises. The appointment, dismissal, and management of enterprise senior cadres by management departments must also be carried out in such a way as to realize unity between rights and responsibilities. Enterprises must carry out democratic management and have a certain right with regard to the appointment and dismissal of enterprise senior cadres. Therefore, factory directors and managers have a dual position, and this situation will become an important feature of the industrial management system in China. That is to say, factory directors and managers are responsible for the management of enterprises on behalf of the state and they are also responsible for the workers' congress. Therefore, there must also exist the relations of the dual system in the appointment and dismissal of factory directors and managers. If the directors and managers are elected or recommended by workers' congresses, they must be checked and approved by management departments; if they are sent by management departments, they can be acknowledged by workers' congresses after they have worked in enterprises for a certain period. The dismissals of factory directors and managers must also go through this process. During a definite period, the higher management organs cannot transfer factory directors and managers at will without the consent of the workers' congress. Third, the management department is responsible for supervising enterprises economically and administratively so that these enterprises will be able to fulfill state mandatory plans in an overall way, resolutely implement the party and state principles and policies, and strictly abide by state economic rules and regulations. In this way, these enterprises will be able to constantly improve their economic effect through proper business means.

The rights and responsibilities of other functional departments must be analyzed concretely. For example, tax departments are not only exercising their management function toward enterprises on behalf of the governments of the same levels, but what is more important, they are exercising their function in regulating the economy and collecting financial revenues on behalf of the state. As a consequence, they are considerably independent. Tax departments levy various taxes on enterprises according to tax laws.

Therefore, in this aspect, the question of multiple leadership does not exist. Banks are state financial organs that are carrying out their function in such aspects as raising funds, providing loans, settling accounts, and supervising financial matters. Their relations with enterprises are normal business relations and there is no multiple leadership between them. Following the introduction of the system to substitute taxes for delivery of profits, financial departments no longer have direct relations with enterprises under ordinary conditions. Such circulation departments as goods and material departments and commercial departments must, together with enterprises, carry out state mandatory plans, and they have relations with enterprises through contracts. The main function of planning, personnel, and labor departments is to provide advice to the governments at various levels. The plans and mandates of these departments for enterprises must be passed down through management departments. Such departments are not in a position to directly command enterprises. Following the introduction of the system of substituting taxes for the delivery of profits, local governments will have certain tax revenues. Therefore, local administrative organs are not allowed to shift various expenses to enterprises, nor are they allowed to transfer staff from enterprises at will.

(3) Decrease management layers, and the rights and responsibilities and other methods of carrying out the function of management departments of various trades must be defined.

Under ordinary conditions, the fewer the number of the departments of various levels that are involved in solving problems, the more timely and effectively will the problems be resolved and, consequently, the more definite the responsibilities of the management departments at various levels will be.

1. The administrative companies at various levels must be abolished. A number of companies have been set up in various places over the past few years, but most are not enterprise companies; they are administrative companies. These administrative companies are in between government industrial management departments and industrial enterprises. They are neither government economic management organs nor enterprises. They are much less effective or they just cannot display their roles when they are compared with industrial bureaus in exercising the function of state administrative management. But these companies have taken part of the rights from enterprises, added many management staff members, and increased the burden of enterprises. In fact, the emergence of these companies represents an addition of another layer. Furthermore, it is very difficult to define the responsibilities between these companies and government industrial management departments of the same level. There often occur contradictions and disputes over trifles between these two aspects, only making more difficult the problems that are easy to solve and, consequently, affecting work. Therefore, when conditions permit, these administrative companies must create conditions to change themselves into enterprise companies while those that have no conditions must be resolutely abolished.

2. The national corporations set up by various industrial departments of the central government must be enterprise companies. They cannot be both administrative companies and enterprise companies. That is to say, these companies cannot be turned into the organs that are similar to departments to carry out government functions in economic management and, at the same time, appear as enterprises to add another layer of management. In addition, in order to avoid monopoly and to encourage competition, the number of national enterprise corporations must also be limited. It is advisable that each trade sets up several big companies as enterprises under the central government and that these companies be subordinated to the related industrial departments or be put under city management.

3. Various provincial industrial bureaus must be streamlined in a big way and merged. Following the termination of provincial direct management over enterprises, these enterprises must be put under city management, with various plans being directly passed down by planning departments to big and medium cities or prefectures without having to pass through provincial industrial bureaus. The work of organizing the production of these enterprises may be undertaken by various industrial departments of provincial economic commissions. In this way, provincial industrial bureaus will be streamlined in a big way. They may be merged, while some others may be turned into functional organs of the economic commissions. Following the streamlining of provincial industrial bureaus, part of the tasks in industrial management may be undertaken by nongovernmental industrial associations that will accordingly be formed.

4. The layers of city management must also be decreased as much as possible. For example, medium and small cities may abolish industrial bureaus that will be replaced by the management of economic commissions and companies or economic commissions and factories. Whether industrial bureaus in big cities can be abolished depends on the number of various industrial companies and factories. The departments with fewer companies and factories can be abolished or merged into industrial bureaus; the departments with more companies and factories may maintain their original industrial bureaus, coupled with the introduction of tripartite management by economic commissions, industrial bureaus, and companies or factories.

5. With regard to the management of prefectural industrial enterprises, it is imperative to popularize the experience of Qingyuan Prefecture in Guangdong Province; that is, abolish prefectural industrial bureaus and put enterprises under the direct management of prefectural economic commissions.

Following decreases in the layers of management, it is necessary to define the range of responsibility among government industrial management departments at various levels, coupled with a strict management system that should be followed by various levels.

It can be seen from the above analyses that government industrial management departments can be divided into the following three categories: First, the departments with their own enterprises, such as the related central government industrial departments and city industrial bureaus. These organs are in the management of the enterprises that are under their direct

leadership and in the industrial management of those not under their direct leadership. Second, the departments that do not have enterprises under their direct leadership, such as provincial industrial bureaus which are only carrying out industrial management over enterprises. Third, prefectural economic commissions and certain city economic commissions that have the function of carrying out management and functional management as well as the function of industrial management. With regard to the range of responsibility of management and functional departments, central government industrial bureaus, provincial bureaus, and the related economic commissions can in no way directly interfere with the production activities of non-directly subordinated enterprises; they can only exercise industrial management. The range of responsibilities of these departments, as government industrial management departments, should be: Define their own long- and medium-range development plans and technical and economic policies under the guidance of state principles and policies and long-range social economic development plans; organize technical forces to make breakthroughs in major scientific research items; define the distribution of their enterprises across the country; help local and related departments in such aspects as the designs, imports of technical equipment, carrying out the projects, and testing the results of the projects of major construction; popularize advanced technology and management experiences; organize trans-regional coordination; check and supervise the implementation by these departments of central government principles and policies and state plans and mandates; and other industrial management tasks that have to be resolved by industrial management departments.

The roles of coordination of various trades in various levels must be fully displayed, and it is imperative to transfer part of the function of government industrial management departments to industrial associations. Industrial associations are not government organs; they are voluntarily formed by industrial enterprises for democratic management and linking enterprises with government. The main tasks of these associations should include the following three aspects: First, make proposals and work out drafts with regard to the development plans, orientation in the development of products, and technical and equipment policies of their own trades and pass down these aspects as government decisions for implementation following approvals from government industrial management departments. Second, coordinate certain business activities of their members, such as the distribution of the volume of the products that are under guidance planning and regulation by market mechanisms, and control the defining and the newly added production capacity for certain products with a floating price or work out the rules and regulations that have to be followed by their members. Third, serve enterprises, such as providing various technical and economic information to enterprises, assessing and advising enterprise business management, training staff for enterprises, organizing and popularizing advanced technology and management experience, and organizing interfactory emulation and appraisals of trades.

FOREIGN TRADE

SHANDONG HOLDS EXPORT TRADE TALKS 10 MARCH

OW101650 Beijing XINHUA in English 1603 GMT 10 Mar 84

[Text] Qingdao, 10 March (XINHUA)--A trade talks on Shandong exports opened today in the port city of Qingdao, attracting 400 Hong Kong, Macao and foreign businessmen.

The province will also propose 200 projects for international cooperation, vice-governor Liu Peng said in a XINHUA interview. These will be in light, textile, machine-building, electronic, chemical, metallurgical, building materials and food processing industries as well as in aquatic products.

International cooperation may take the forms of joint venture, cooperative production, compensation trade, technical imports, and processing and assembly with supplied parts or materials.

The province now has trade and economic relations and technical cooperation with Hong Kong, Macao and 140 foreign countries.

According to Zhang Fuzeng, vice-chairman of the provincial Economic Commission, from 1979 to 1983 the central government allocated 1.5 billion U.S. dollars of foreign loans for some key construction projects in Shandong, the province itself solicited 170 million U.S. dollars of foreign funds for technical transformation of 600 projects of lesser importance.

"Under the current open policy," he said, "Shandong will accelerate her steps to expand her economic relations with foreign countries."

To be precise, he said, the province intends to solicit more funds for the development of its energy industry, communications, light, textile, chemical, electronics and building materials industries.

It hopes to double the output of Shengli Oil Field, the second largest in China, after Daqing in Northeast China.

It will also accelerate the building of six railways and the expansion of Qingdao, Yantai and other ports.

Shandong Province--population 70 million--is noted for its metallic and non-metallic mineral resources.

It ranks first among Chinese provinces, municipalities and autonomous regions in the output of cotton and peanuts, and produces an annual average of 1.5 million tons of apples, grapes and other fruits.

Off the province's 3,000-kilometer coastline there are abundant marine resources.

CSO: 4020/360

FOREIGN TRADE

BRIEFS

FOREIGN HOTEL EQUIPMENT EXHIBIT--Guangzhou, 6 March (XINHUA)--An exhibition of foreign hotel equipment opened today in Guangzhou, attracting 1,000 designers, hotel managers and tourist and foreign trade officials from a dozen Chinese provinces. On display are special building materials for hotels, hotel equipment and fittings, guest room facilities and facilities for conference rooms, restaurants, kitchens and toilets, as well as equipment for hotel management including computer systems. These were from Hong Kong and 14 countries including the United States, Australia, the United Kingdom, Japan, Holland, France and Singapore. After seeing the exhibition, a Xian construction official expressed willingness to let a foreign firm contract the fitting of a new hotel to be built in the city if prices are fair. "These are just the right kind of things for the Tangcheng Hotel, he told XINHUA. Building of the 800-room hotel is scheduled to begin in the second half of this year. Technical seminars will be held during the exhibition, which is scheduled to end on 10 March. [Text] [OW062102 Beijing XINHUA in English 1514 GMT 6 Mar 84]

SHANGHAI FOREIGN TRADE FAIR ENDS--Shanghai, 10 March (XINHUA)--the 1984 Shanghai Foreign Trade Fair ended today, attracting businessmen from Hong Kong, Macao and 50 foreign countries. The total volume of business transactions made at the fair was at least 100 percent more than expected, according to a spokesman for the Shanghai General Corporation of Foreign Trade. In addition, a number of contracts were signed on technical and equipment imports, and projects of joint venture and cooperative production. [Text] [OW101555 Beijing XINHUA in English 1449 GMT 10 Mar 84]

TRADE AGREEMENT WITH GDR--Leipzig, 12 March (XINHUA)--China and the German Democratic Republic (GDR) signed here today an agreement for the exchange of goods and payments in 1984. The agreement was signed by Chen Jie, representative of the Chinese minister of foreign economic relations and trade, and Eugen Kattner, GDR deputy minister of foreign trade. Under the agreement, China will export agriculture products, textiles and minerals to GDR while importing mainly industrial products from that country. [Text] [OW121814 Beijing XINHUA in English 1624 GMT 12 Mar 84]

PRC-TAIWAN TRADE VIA HONG KONG--Hong Kong, 13 March KYODO--Trade between China and Taiwan via Hong Kong last year was valued at 1,924.8 million Hong Kong dollars (about 248 million U.S. dollars), up 6.3 percent over 1982, according to Japanese statistics. The Hong Kong office of the Japanese External Trade

Organization (JETRO) said Chinese exports of primary products to Taiwan accounted for 698.3 million Hong Kong dollars. Other details were not known. Taiwan on 8 March announced import regulations on 1,157 commodities were eased, allowing Taiwanese enterprises in third countries and Hong Kong and Macao to import Chinese herb medicine. [Sentence as received] [Text] [W130049 Tokyo KYODO in English 0028 GMT 13 Mar 84]

COPRODUCTION WITH JAPAN--Chongqing, 12 March (XINHUA)--Coproduction between Jialing Machinery Plant, China's leading motor scooter producer, and Japan's Honda Company of a new model of motorscooter began here yesterday. The JH 70, jointly designed by China and Japan, uses a 6-horsepower engine and can run for 105 kilometers on 1 liter of gasoline at kilometers per hour. [Sentence as received] The fuel consumption is up to world standards. With a maximum loading capacity of 150 kilograms, it can carry both people and goods for 500 kilometers before refueling, according to the Chongqing-based Jialing plant. The production plan for the new scooters in 1984 is 50,000. In 1982 Honda began to help Jialing in its all-round technical renovation on the CJ 50 scooter. A regular product of the Chinese plant. The Jialing plant has since turned out 250,000 CJ 50 scooters up to world standards. [text] [OW121249 Beijing XINHUA in English 1149 GMT 12 Mar 84]

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